Docket:	:	A.06-02-014
Exhibit Number	:	
Commissioner	:	Bohn
Admin. Law Judge	:	J. Vieth
DRA Project Mgr.	:	Sung Han
	:	

DIVISION OF RATEPAYER ADVOCATES
CALIFORNIA PUBLIC UTILITIES COMMISSION

Report on the

RESULTS OF OPERATIONS OF SAN JOSE WATER COMPANY

Test Year 2007 and Escalation Years 2008 and 2009 Application 06-02-014

For authority to increase water rates in the cities of San Jose, Monte Sereno, Campbell and Cupertino, and the Town of Los Gatos and portions of unincorporated areas of Santa Clara County

San Francisco, California
June 2006

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MEMDRANDUM

This report was prepared by the Division of Ratepayer Advocates (DRA) of the California Public Utilities Commission (Commission) in A.06-02-014 proceeding. In this docket, the applicant, San Jose Water Company (SJWC) requests rate increases of $14,646,000 or 8.64 % in 2007, $5,186,000 or 2.78% in 2008, and $6,246,000 or 3.26% in 2009.

Sung Han served as DRA's Project Manger in this case, and is responsible for the overall coordination in the preparation of this report. DRA's witnesses' prepared qualifications and testimony are contained in Appendix A of this report.

EXECUTIVE SUMMARY

San Jose Water Company (SJWC) requested an increase of 8.54% in Test Year 2007 and 2.78% and 3.26% in the Escalation Years 2008 and 2009, whereas DRA recommends an increase of 0.86% in 2007.

1) Key Recommendations

DRA's recommendations are based on 1) lower estimates of Operation and Maintenance expenses (Chapter 3), 2) lower estimates of Administrative and General expenses (Chapter 4), 3) lower Plant additions (Chapter 8), 4) a lower Return on Equity of 9.65% resulting lower Rate of Return on Rate Base of 8.65% (2007) and 8.63% (2008 and 2009).

The major differences between DRA and SJWC are attributable to the following adjustments.

a) Payroll – DRA's payroll expense estimate is $2,432,900 less than SJWC's estimate. SJWC asked for an additional 21 workers and did not reflect the historical vacancy rate. DRA's estimate is based on the current staffing level escalated for anticipated wage increase. DRA believes that the current staffing level to be sufficient for the utility operations.

b) Purchase Water Expense – DRA's Purchased Water Expense is $8,067,000 higher than SJWC's estimate due to DRA's higher purchased water and lower pumped water estimates.

c) Purchased Power Expense – DRA's estimate for Purchased Power expense is $2,265,000 less than SJWC's estimate. The difference is attributable to lower DRA's estimated unit power cost and lower pumped water. DRA's used 11.214 cent per kwhr base on declining trend of power cost that SJWC was able to achieve over the last five

years while SJWC used 12.589 cent per kwhr based on the five year average power cost.

d) Pump Tax – DRA's pumped tax estimate is $7,534,000 lower than SJWC's estimate due to DRA's lower pumped water estimate.

d) Pensions and Benefits – DRA's estimate for Pensions and Benefits is $1,430,000 lower than SJWC's estimate. The lower DRA's estimate reflects the latest actuarial report and lower DRA's Payroll Expense estimate.

e) Plant – DRA's lower plant estimate reflects DRA's recommendation to 1) exclude $1,456,000 for 2007 and $2,993,500 for 2008 in plant additions from this rate cycle because these capital are not necessary at this time and 2) defer $12,249,200 for 2007 and $12,136,500 for 2008 in plant additions to be recovered through advice letter because the completion date and the project cost estimates are uncertain at this time.

f) Full Cost Balancing Account – DRA recommends that SJWC's request for full cost balancing account be denied because the full cost balancing account would reduce SJWC's incentive to achieve a more cost-effective water supply mix. Furthermore, SJWC did not reflect a corresponding reduction in it return on equity to account for the reduced risk which DRA believes would result from a full cost balancing account.

The following table lists the chapters and DRA witnesses.

List of DRA Witnesses and Respective Chapters

Chapter Number	Description	Witness
-	Executive Summary	Sung Han
1	Introduction and Summary of Earnings	Sung Han
2	Customers, Water Consumption and Revenue	Patrick Hoglund
3	Operation and Maintenance Expense	Jay Morse
4	Administrative and General Expense	Jay Morse
5	Taxes Other than Income	Patrick Hoglund
6	Income Taxes	Patrick Hoglund
7	Net to Gross Multiplier	Patrick Hoglund
8	Plant in Service	Clement Lan
9	Depreciation Expense and Reserve	Clement Lan
10	Rate Base	Clement Lan
11	Customer Service	Patrick Hoglund
12	Rate Design	Sung Han
13	Special Request	Jay Morse
14	Step Increases	Sung Han

CHAPTER 1: INTRODUCTION AND SUMMARY OF EARNINGS

A. INTRODUCTION

This report sets forth the analysis and recommendations of DRA pertaining to A.06-02-014, SJWC's general rate increase request for Test Year 2007 and Escalation Years 2008 and 2009**.**

B. SUMMARY OF RECOMMENDATIONS

Tables 1-1 through 1-3 on the Summary of Earnings compare the results of operations for the Test Year 2007 including revenues, expenses, taxes and rate base.

C. DISCUSSION

The total revenues requested by SJWC are as follows:

Year	Amount of Increase	Percent
2007	$14,646,000	8.54%
2008	$5,196,000	2.78%
2009	$6,246,000	3.26%

The following table compares SJWC requested and DRA recommended return on rate base and return on equity estimates.

	San Jose Water Company		DRA	
Year	Rate. Base	Equity	Rate Base	Equity
2007	9.46%	11.20%	8.65%	9.65%
2008	9.44%	11.20%	8.63%	9.65%
2009	9.44%	11.20%	8.63%	9.65%

D. CONCLUSION

DRA recommends a revenue increase for the Test Year 2007 as follows (Escalation Years 2008 and 2009 are covered in Chapter 14):

Year	Amount of Increase	Percent
2007	$ 1,481,100	0.86%

The last general rate increase for SJWC was authorized by D.04-08-054 in Application A.03-05-035 resulting in a rate of return on rate base of 8.86% in 2004 and 8.86% in 2005. Present Rates used by DRA in this report are those authorized by Advice Letter 358, effective January 1, 2006.

A comparison of DRA's and SJWC's estimates for rate of return on rate base for the Test Year 2007 at the present and the utility's proposed rates is shown below:

	RATE OF RETURN		
	DRA	SJWC	Diff
At Present Rates	8.35 %	6.85%	1.50%
At SJWC Prop.Rates	11.20%	9.46%	1.73%

TABLE 1-1

San Jose Water Company
SUMMARY OF EARNINGS
Test Year 2007

(At Present Rates)

Item	DRA Analysis	SJWC Analysis	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
		(Dollars in Thousands)		
Oper. Revenues				
Water	170,963.0	170,963.0	0.0	0.0%
Misc.Revenues	180.0	180.0	0.0	0.0%
Deferred Rev.	440.0	440.0	0.0	0.0%
Total Revenues	171,583.0	171,583.0	0.0	0.0%
Expenses				
Oper. & Maint.	90,912.4	94,727.3	3,814.9	4.2%
Admin. & Gen.	16,991.2	18,770.5	1,779.3	10.5%
Taxes O/T Income	5,393.3	5,640.3	247.0	4.6%
Dep.and amortization	20,816.5	21,470.3	653.7	3.1%
CCFT	2,917.6	1,967.9	-949.7	0.0%
FIT	10,174.6	7,100.1	-3,074.5	-30.2%
Total Expenses	147,205.6	149,676.4	2,470.8	1.7%
Income	24,377.4	21,906.6	-2,470.8	-10.1%
Ratebase	291,898.9	319,852.6	27,953.8	9.6%
Rate of Return	8.35%	6.85%	-1.50%	

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TABLE 1-2 (SJWC PROPOSED)

San Jose Water Company
SUMMARY OF EARNINGS
Test Year 2007

(At SJWC Proposed Rates)

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Oper. Revenues				
Water	185,608.2	185,608.2	0.0	0.0%
Misc.Revenues	180.0	180.0	0.0	0.0%
Deferred Rev.	440.0	440.0	0.0	0.0%
Total Revenues	186,228.2	186,228.2	0.0	0.0%
Expenses				
Oper. & Maint.	90,941.0	94,727.3	3,786.3	4.2%
Admin. & Gen.	16,991.2	18,770.5	1,779.3	10.5%
Taxes O/T Income	5,432.5	5,679.5	247.0	4.5%
Dep.and amortization	20,816.5	21,470.3	653.7	3.1%
CCFT	4,143.9	3,256.6	-887.3	-21.4%
FIT	15,218.0	12,057.9	-3,160.0	-20.8%
Total Expenses	153,543.1	155,962.1	2,419.0	1.6%
Income	32,685.1	30,266.5	-2,418.6	-7.4%
Ratebase	291,898.9	319,852.6	27,953.8	9.6%
Rate of Return	11.20%	9.46%	-1.73%	

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TABLE 1-3 (DRA RECOMMENDED R/R)

San Jose Water Company
SUMMARY OF EARNINGS

Item	DRA's 2007 @ Present Rates (A)	DRA's 2007 Recommended Rates	Proposed Exceeds Present Rates Amount	%
	(Dollars in Thousands)			
Oper. Revenues				
Water	170,963.0	172,447.1	1,484.1	0.87%
Misc.Revenues	180.0	180.0	0.0	0.00%
Deferred Rev.	440.0	440.0	0.0	0.00%
Total Revenues	171,583.0	173,067.1	1,484.1	0.86%
Expenses				
Oper. & Maint.	90,912.4	90,912.4	0.0	0.00%
Admin. & Gen.	16,991.2	16,998.1	6.9	0.04%
Taxes O/T Income	5,393.3	5,393.3	0.0	0.00%
Dep.and amortization	20,816.5	20,816.5	0.0	0.00%
CCFT	2,917.6	2,917.6	0.0	0.00%
FIT	10,174.6	10,174.6	0.0	0.00%
Total Expenses	147,205.6	147,212.5	6.9	0.00%
Income	24,377.4	25,854.7	1,477.3	6.06%
Ratebase	291,898.9	291,898.9	0.0	0.00%
Rate of Return	8.35%	8.65%	0.30%	3.58%

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CHAPTER 2: CUSTOMER SALES AND REVENUES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on water consumption and operating revenues of SJWC. DRA performed a review of SJWC's report, supporting workpapers, methods of estimating water consumption and operating revenue. DRA also was able to duplicate the company's consumption forecasts using E-Views. Based on DRA's review, we agree with SJWC's estimates for consumption and operating revenues.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with SJWC's projections in the following areas: (1) of sales per customer as shown in Tables 2-5 and 2-6, (2) average number of customer as shown in Tables 2-3 and 2-4, (3) total sales and supply in Tables 2-7 and 2-8 (4) unaccounted for water of 6.4%, and (5) revenue at present rates used by SJWC in its application as shown in Tables 2-1 and 2-2.

C. DISCUSSION

1) Total Water Consumption and Supply

Total consumption of water is the sum of metered sales and unaccounted for water. The total consumption and supply are shown in Tables 2-7 and 2-8. SJWC used the New Committee Method as directed by the Rate Case Plan to forecast customer demand.

2) Operating Revenues

The present revenues are calculated based on the rates effective January 1, 2006 via Advice Letter No. 358. The proposed rates are those shown in SJWC's application. Revenues requested by SJWC and recommended by DRA based on the present rates and SJWC's proposed rates are shown in Tables 2-1 and 2-2.

3) Unaccounted For Water

SJWC's estimate of Unaccounted For Water of 6.4% was based on using 5 year average and DRA does not oppose to it.

TABLE 2-1

SAN JOSE WATER COMPANY
OPERATING REVENUES
Test Year 2007
(At SJWC Present)

Item	DRA Analysis Present Rates (A)	SJWC Req. Present Rates (C)	SJWC Exceeds DRA Amount	%
	(Dollars in Thousands)			
Metered Service:				
Residential & Business Revenue	158,118.0	158,118.0	0.0	0.00%
Industrial Revenue	458.0	458.0	0.0	0.00%
Recycled Revenue	699.0	699.0	0.0	0.00%
Public Authority Revenue	9,035.0	9,035.0	0.0	0.00%
Resale Revenue	712.0	712.0	0.0	0.00%
Other Sales Revenue	523.0	523.0	0.0	0.00%
Raw Water Revenue	3.0	3.0	0.0	0.00%
Total Metered Revenue	169,548.0	169,548.0	0.0	0.00%
Flat Rate Services:				
Private Fire Protection	1,415.0	1,415.0	0.0	0.00%
Total Water Service Revenue	170,963.0	170,963.0	0.0	0.00%
Misc. & Other Revenue:				
Rent	0.0	0.0	0.0	0.00%
Deferred Revenues	440.0	440.0	0.0	0.00%
Miscellaneous	180.0	180.0	0.0	0.00%
Bad Check Charges	0.0	0.0	0.0	0.00%
Total Misc & Other Revenue	620.0	620.0	0.0	0.00%
Grand Total Revenue	171,583.0	171,583.0	0.0	0.00%

TABLE 2-2

SAN JOSE WATER COMPANY
OPERATING REVENUES
Test Year 2007
(At SJWC Proposed Rates)

Item	DRA Analysis Proposed Rates (B)	SJWC Req. Proposed* Rates (D)	SJWC Exceeds DRA Amount	%
Metered Service:				
Residential & Business Revenue	171,830.0	171,830.0	0.0	0.00%
Industrial Revenue	499.0	499.0	0.0	0.00%
Recycled Revenue	753.0	753.0	0.0	0.00%
Public Authority Revenue	9,765.0	9,765.0	0.0	0.00%
Resale Revenue	759.0	759.0	0.0	0.00%
Other Sales Revenue	583.0	583.0	0.0	0.00%
Raw Water Revenue	5.0	5.0	0.0	0.00%
Total Metered Revenue	184,194.0	184,194.0	0.0	0.00%
Flat Rate Services:				
Private Fire Protection	1,415.0	1,415.0	0.0	0.00%
Total Water Service Revenue	185,608.2	185,608.2	0.0	0.00%
Misc. & Other Revenue:				
Rent	0.0	0.0	0.0	0.00%
Deferred Revenues	440.0	440.0	0.0	0.00%
Miscellaneous	180.0	180.0	0.0	0.00%
Bad Check Charges	0.0	0.0	0.0	0.00%
Total Misc & Other Revenue	620.0	620.0	0.0	0.00%
Grand Total Revenue	186,228.2	186,228.2	0.0	0.00%

TABLE 2-3

SAN JOSE WATER COMPANY
AVERAGE SERVICES
Test Year 2007

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA %
	(A)	(B)	(C)	(D)
Average Metered Service:				
Residential & Business	213,163.0	213,163.0	0.0	0.00%
Industrial	60.0	60.0	0.0	0.00%
Public Authorities	1,705.0	1,705.0	0.0	0.00%
Resale	27.0	27.0	0.0	0.00%
Other Sales	246.0	246.0	0.0	0.00%
Recycled Water, Irrigation	39.0	39.0	0.0	0.00%
Total Average Metered Services	215,240.0	215,240.0	0.0	0.00%
Average Flat Rate Services				
Private Fire Protection	3,190.0	3,190.0	0.0	0.00%
Total Average Active Services	218,430.0	218,430.0	0.0	0.00%

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TABLE 2-4

SAN JOSE WATER COMPANY
AVERAGE SERVICES
Test Year 2008

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
Average Metered Service:				
Residential & Business	213,743.0	213,743.0	0.0	0.00%
Industrial	57.0	57.0	0.0	0.00%
Public Authorities	1,717.0	1,717.0	0.0	0.00%
Resale	27.0	27.0	0.0	0.00%
Other Sales	245.0	245.0	0.0	0.00%
Recycled Water, Irrigation	39.0	39.0	0.0	0.00%
Total Average Metered Services	215,828.0	215,828.0	0.0	0.00%
Average Flat Rate Services				
Private Fire Protection	3,260.0	3,260.0	0.0	0.00%
Total Average Active Services	219,088.0	219,088.0	0.0	0.00%

2

TABLE 2-5

SAN JOSE WATER COMPANY
WATER CONSUMPTION PER CUSTOMER
(CCF PER YEAR)
Test Year 2007

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
Average Sales per Customer				
Residential & Business	265.0	265.0	0.0	0.0%
Industrial	2,665.0	2,665.0	0.0	0.0%
Public Authorities	2,055.0	2,055.0	0.0	0.0%
Other Utilities	12,037.0	12,037.0	0.0	0.0%
Other Sales	467.0	467.0	0.0	0.0%
Recycled Water	12,769.0	12,769.0	0.0	0.0%

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TABLE 2-6

San Jose Water Company
WATER CONSUMPTION PER CUSTOMER
Test Year 2008

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
Average Sales per Customer				
Residential & Business	265.0	265.0	0.0	0.0%
Industrial	2,665.0	2,665.0	0.0	0.0%
Public Authorities	2,040.0	2,040.0	0.0	0.0%
Other Utilities	12,037.0	12,037.0	0.0	0.0%
Other Sales	469.0	469.0	0.0	0.0%
Recycled Water	12,769.0	12,769.0	0.0	0.0%

2

TABLE 2-7

SAN JOSE WATER COMPANY
TOTAL CONSUMPTION AND SUPPLY
(KCCF PER YEAR)
Test Year 2007

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
Metered Potable Sales (Kccf):				
Residential & Business	56,488.0	56,488.0	0.0	0.0%
Industrial	160.0	160.0	0.0	0.0%
Public Authorities	3,503.0	3,503.0	0.0	0.0%
Resale Other Utilities	325.0	325.0	0.0	0.0%
Other Sales	115.0	115.0	0.0	0.0%
Total Metered Consumption	60,591.0	60,591.0	0.0	0.0%
Unaccounted Water	4,149.0	4,149.0	0.0	0.0%
Total Supply Delivered	64,740.0	64,740.0	0.0	0.0%

1

TABLE 2-8

SAN JOSE WATER COMPANY
TOTAL CONSUMPTION AND SUPPLY
(KCCF PER YEAR)
Test Year 2008

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
Metered Potable Sales (Kccf):				
Residential & Business	56,642.0	56,642.0	0.0	0.0%
Industrial	152.0	152.0	0.0	0.0%
Public Authorities	3,503.0	3,503.0	0.0	0.0%
Resale Other Utilities	325.0	325.0	0.0	0.0%
Other Sales	115.0	115.0	0.0	0.0%
Total Metered Consumption	60,737.0	60,737.0	0.0	0.0%
Unaccounted Water	4159.0	-60,737.0	-64896.0	-1560.4%
Total Supply Delivered	64,896.0	0.0	-64,896.0	-100.0%

1

CHAPTER 3: OPERATION AND MAINTENANCE EXPENSES

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on Operation and Maintenance (O&M) expenses for SJWC. Table 3-1 compares in detail DRA's and SJWC's estimates for the Test Year 2007.

B. SUMMARY OF RECOMMENDATIONS

DRA's estimated total for O & M expenses is $90,912,400. SJWC's requested total is $94,727,300, which exceeds DRA's estimate by $3,814,900, or 4.2%. The adjustments are in purchased power, purchased water, pump taxes and O&M Payroll Expenses.

DRA's recommended amount for purchased power is $4,322,700. SJWC requests $6,588,300, which exceeds DRA's estimate by $2,265,600, or 52.4%.

DRA's recommended amount for purchased water is $42,583,000, which exceeds SJWC proposed $34,516,000 by $8,067,000, or 18.9%.

DRA's recommended amount for pump tax is $21,066,000. SJWC's requested amount of $28,600,000 exceeds ORA's amount by $7,534,000, or 35.8%.

DRA's recommended total O&M payroll amount is $14,128,600. SJWC request $16,214,000, which exceeds DRA's recommendation by $2,085,400 or by 14.8%. The recommended reductions in payroll expenses are prorated among O&M expense categories as discussed below.

The recommendations are developed below.

C. DISCUSSION

DRA analyzed SJWC's reports, supporting work papers, responses to data requests, other information provided in meetings, phone conversations and e-mails, and SJWC's methods of estimating O&M expenses before making its recommendations. DRA appreciates the timely cooperation of SJWC staff in responding to oral and written data requests.

1) INFLATION FACTORS

To normalize labor costs for escalation purposes, DRA used the Summary of Compensation Per Hour Memorandum issued April 30, 2006 by DRA's Energy Cost of Service Branch. These statistics are the most recent estimates available of future inflation. They are published by Global Insight in U.S. Economic Outlook. In the next chapter, DRA uses compensation per hour factors to determine labor and salary expenses.

Table 3-A

INFLATION RATES (%) TABLE (Calendar year)

COMPENSATION PER HOUR

Annual Rate of Change

Non-farm Business Sector, Seasonally Adjusted

Year	Annual Change
1997	3.6%
1998	5.3%
1999	4.4%
2000	6.9%
2001	2.7%
2002	2.8%
2003	4.0%
2004	4.5%
2005	5.4%
2006	3.7%
2007	3.3%

2008	3.6%
2009	3.8%
2010	3.9%

Source: Global Insight April 2006 U.S. Economic Outlook

1) PURCHASED POWER EXPENSE

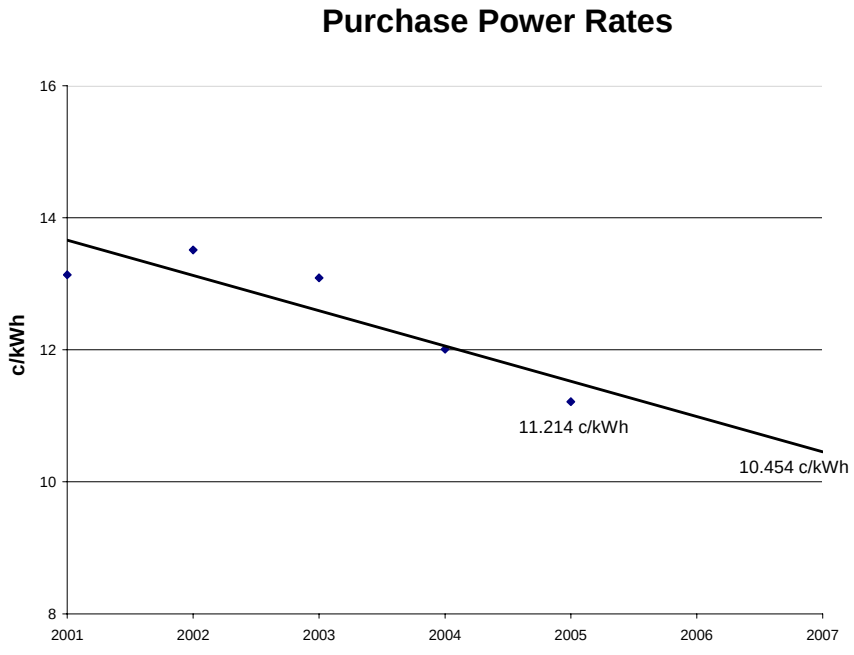
Purchased power is the cost of electricity needed to pump and deliver well water. SJWC requests a rate of 12.589 c/kWh for purchase power based on the five year recorded average of power costs, which is taken by dividing the total recorded power cost by total kilowatt hours (kWh) purchased from PG&E.

Table 3-B

PURCHASE POWER RATES TABLE

2001	0.13135 kWh
2002	0.13512 kWh
2003	0.13089 kWh
2004	0.12009 kWh
2005	0.11214 kWh

Chart 3-B



The above table and chart show the downward trend in electricity expenses which reflects the abating of the 2000-2001 power crisis and the gradual reduction in non-bypassable charges associated with that crisis. It may also reflect increased SJWC system efficiencies related to updating of pumps and installation of SCADA. A linear regression forecast of the rates from 2001-2005 yields 10.4538 c/kWh for 2007, a reduction of 17% over SJWC's request.

However, the downward trend in electric power costs may be ending. DRA's understanding is that PG&E has requested increases in electricity rates of more than 10% to compensate for higher fuel costs to its own generating plants and those of its wholesale electricity suppliers. While the Commission's decisions on rate increases, and future gas prices, are unknown, approved increases in power rates may exceed the effects of increased system efficiency. Therefore, the downward trend in power expenses may be ending. DRA uses SJWC's estimated 2005 cost 11.214 c/kWh. The 2005 number is an estimate because when SJWC drafted its February 2006 workapers, all utility bills were not yet in from PG&E. The 2005 number is 7.3% higher than the forecast 2007 number. It is a balance between the likelihood of increasing rates and increasing system efficiency and represents a break in the downward trend of purchase power costs. If rates rise above SJWC's 2005 estimate during the 2007 Test Year, the increase will be recovered in the water supply cost balancing account.

Purchased electric power expenses are the product of the amount of well water pumped and the cost per kWh. Well water is pumped to fill the gap between consumption by customers and water that is purchased or surface water. SJWC proposes to pump 29,661 kCCF of well water in 2007 based on making the minimum purchase of water required by its contract with Santa Clara Valley Water District. Historically, however, SJWC has pumped considerably more than the minimum. This makes sense because purchasing water is less expensive than pumping it out of the ground. DRA compared the total cost of purchased, surface

and pumped water proposed by SJWC with the total cost of same taking into account historic purchases of water, including of as available water. As discussed below, DRA recommends pumping 21,848 kCCF of well water based on the five year average of purchased water, the ten year average use of surface water, and the forecast consumption agreed to by DRA.[1]

SJWC seeks $6,588,300 to pump 29,661 kCCF of well water.[2] Based on 21,848 kCCF of well water and DRA's recommended purchase power rate of 11.214 c/kWh, DRA recommends a pumping power expense of $4,322,700, a reduction of 34% from SJWC's requested amount[3].

2) PURCHASED WATER EXPENSE AND SURFACE WATER USAGE

DRA estimates $42,583,000 as the cost to purchase 36,765 kCCF of water. SJWC estimates $34,516,000 as the cost of 29,800 kCCF of purchased water. The difference is due solely to the differing recommendations of the amount of water to be purchased. SJWC's lower estimate was the minimum required by the contract with Santa Clara Valley Water District. DRA's higher estimate takes account of historic and steady purchases above the contract minimum. The variance of purchases over the last 5 years is small and rainfall has been more than ample this past year so purchased water is likely to continue to be available at the historic level in 2006 and 2007. DRA compared the total cost of purchased and pumped water based on the minimum required purchase of water as requested by

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[1] The forecast demand is 64,740 kCCF. Subtracting estimated ten year average of purchase water (36765 kCCF) and the five year average of surface water (6,127 kCCF) from the forecast demand leaves 21848 kCCF as pumped (well) supply.

[2] WP 8-4

[3] Proportioning SJWC's requested amount by DRA's recommended quantity of pumped water and DRA's recommended purchase power rate, 21,848 kCCF / 29,661 kCCF x 11.214 c/kWh / 12.589 c/kWh x $6,588,300 requested expense = $4,432,700, a reduction of 32.7%.

SJWC, with the total cost of purchased and pumped water based on historic purchases of water. DRA found that buying the historic quantity of purchased water helped reduce costs.

DRA also considered that more surface water is likely to be available than SJWC estimates. Workpaper 7-4C states that "a ten year average best captures the changing conditions by including both very dry years as well is very wet years." The ten year average of surface water production is 6,127.3 kWh (1996-2005 estimated) but SJWC used the fifteen year average of 5,279 kCCF as a “reasonable estimate for 2006-2009." DRA agrees with using a ten year average, as the fifteen year average would include the drought years of the early 1990s, which were atypical.

Using more purchased water and more surface water reduces both the pump tax and the power cost of pumping well water, reducing the overall cost of water supply from $69,704,000 requested by SJWC to $68,082,000 a reduction of 2.3%.

3) PUMP TAXES

Based on 21,848 kCCF of pumped water, DRA’s projected pump tax is $21,066,000, based on a tax rate of $.96/kCCF,[4] which is SJWC’s imputed amount. DRA accepts SCWC's estimated pump tax rate per kCCF.

4) O & M SALARY AND LABOR EXPENSE

SJWC requests $20,917,000 for the total labor and salary expense for O&M and A&G[5]. SJWC’s proposal escalates 2006 payroll based on inflation, assumes that there are no unfilled positions during 2007[6] and that its requests for 21

[4] $28.600 (2007 estimated tax paid in WP 8-4) / 29,661 kCCF pumped per SJWC RO Report Table 8-A.
[5] WP 8-12.
[6] See data response JXM-6 item 2.

additional positions throughout the company are granted. This can be and characterized as a "bottoms up" approach.

DRA's approach can be described as "top down." To account for the impact of unfilled positions and for the normal growth of new positions, as well as inflation, DRA calculated the five year average of inflation-adjusted O&M and A&G payroll for 2001-2005 and escalated that from 2005 dollars to 2007 dollars. As shown above in Table 3-A, DRA uses the most recent available labor escalation estimates of 3.7% and 3.3% for 2006 and 2007, respectively. These estimates are slightly higher than SJWC's 3.5% and 3.0%. DRA's recommended total payroll amount, not including specific disallowances related to T&D maintenance labor, which are discussed below, is $18,419,600, a reduction of 11.9% from SJWC's request of $20,917,000. To put it another way, SJWC's request exceeds DRA's recommendation by 13.6%.

As discussed below, DRA's recommended A&G payroll cost is $4,077,500. Subtracting this from $18,419,600 yields an O&M payroll cost of $14,342,100. (The apparent O&M labor cost with rounding errors is $14,342,000. The $100 discrepancy is due to carried rounding errors.) This quantity is 11.5% less than SJWC's requested amount of $16,214,000 for O&M labor.[7] DRA prorated all payroll (labor) subcategories of O&M expenses by reducing each labor request for 2007 by 11.5%, as depicted in Tables 3-C and 3-C below.

In addition, DRA reduced O&M labor expenses for T&D plant by $213,400 to comport with DRA recommending approval of Project 1201 in 2006 for a major main replacement bringing O&M labor savings of $75,000 per year starting in 2007. The Project will also reduce emergency repair costs by $100,000 per year starting 2007. In addition, Project 3297 in 2006 to purchase excavation

[7] WP 8-2.

equipment will bring O&M labor savings of $38,400 per year starting 2007. See the testimony of Clement Lan in Chapter 8 of this report for more details. Based on these adjustments, DRA's recommended amount for T&D plant maintenance labor is $4,322,600.

DRA's total recommended amount for O&M labor expenses, including that subtraction of the $213,400 in T&D plant maintenance labor discussed above is $14,128,600, of which $9,088,700 is for operations and $5,039,900 is for maintenance. SJWC requests $16,214,000, which exceeds DRA's recommendation by $2,085,400 or 14.8%. DRA's total recommended amount for O&M and A&G payroll is $18,206,200, taking into account the A&G payroll of $4,077,500 discussed below and the $213,400 reduction for T&D plant maintenance savings discussed above.

DRA's approach of escalating the historic amount captures the historic average of vacancies in constant dollars. SJWC's approach does not. The number of customers in SJWC's territory is not growing appreciably so escalation of the historic inflation adjusted average is a realistic and reasonable way to forecast payroll growth. Accounting for specific savings to T&D plant maintenance costs due to replacing equipment or plant which caused specific maintenance costs in the past is also appropriate and reasonable.

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Table 3-C

San Jose Water Company
OPERATION EXPENSES
Test Year 2007

Item	ORA Analysis (A)	SJWC Request (B)	SJWC Exceeds ORA Amount (C)	SJWC Exceeds ORA Percent (D)
		(Dollars in Thousands)		
At Present Rates				
Operating Expenses				
Purchased Water	42,583.0	34,516.0	-8,067.0	-18.9%
Pump Tax	21,066.0	28,600.0	7,534.0	35.8%
Labor Source of Supply	565.2	639.0	73.8	13.1%
Other Non-Labor Source of Supply	281.0	281.0	0.0	0.0%
Total Other Source of Supply	846.2	920.0	73.8	8.7%
Purchased Power	4,322.7	6,588.3	2,265.6	52.4%
Pumping Labor	766.0	866.0	100.0	13.1%
Other Non-Labor Pumping Expense	1,014.7	1,014.7	0.0	0.0%
Total Other Pumping Expense	1,780.7	1,880.7	100.0	5.6%
Chemicals	299.0	299.0	0.0	0.0%
Labor Water Treatment	1,087.1	1,229.0	141.9	13.1%
Other Water Treatment	1,040.0	1,040.0	0.0	0.0%
Total Other Water Treatment	2,127.1	2,269.0	141.9	6.7%
Labor Transmission & Distribution	2,980.9	3,370.0	389.1	13.1%
Other Transmission & Distribution	607.0	607.0	0.0	0.0%
Total Transmission & Distribution	3,587.9	3,977.0	389.1	10.8%
Labor Customer Accounts	3,689.4	4,171.0	481.5	13.1%
Other Customer Accounts	1,289.0	1,286.0	0.0	0.0%
Total Customer Accounts	4,978.4	5,457.0	481.5	9.7%
Uncollectibles	335.3	335.3	0.0	0.0%
Non-Tariffed Services Adjustment	-357.0	-357.0		
Total Labor Operating Expense	9,088.7	10,275.0	1,186.3	13.1%
Total Operating Expense	81,569.4	84,485.3	2,915.9	3.6%

Table 3-D

San Jose Water Company
MAINTENANCE EXPENSES
Test Year 2007

Item	ORA Analysis (A)	SJWC Request (B)	SJWC Exceeds ORA Amount (C)	SJWC Exceeds ORA Percent (D)
	(Dollars in Thousands)			
At Present Rates				
Source of Supply Plant - Labor	168.9	191.0	22.1	13.1%
Source of Supply Plant - Other	182.0	182.0	0.0	0.0%
Total Source of Supply Plant	350.9	373.0	22.1	6.3%
Pumping Plant - Labor	380.4	430.0	49.6	13.1%
Pumping Plant - Other	270.0	270.0	0.0	0.0%
Total Pumping Plant	650.4	700.0	49.6	7.6%
Water Treatment Plant - Labor	168.1	190.0	21.9	13.1%
Water Treatment Plant - Other	117.0	117.0	0.0	0.0%
Total Water Treatment Plant	285.1	307.0	21.9	7.7%
T & D Plant - Labor	4,322.5	5,128.0	805.4	18.6%
T & D Plant - Other	3,737.0	3,737.0	0.0	0.0%
Total T & D Plant	8,059.6	8,865.0	805.4	10.0%
Adjustments	-3.0	-3.0	0.0	0.0%
Labor Maintenance Exp.	5,039.9	5,939.0	899.1	17.8%
Total Maintenance Exp.	9,342.9	10,242.0	899.1	9.6%
Total Operating Expense	81,569.4	84,485.3	2,915.9	3.6%
Total O&M Expense	90,912.4	94,727.3	3,814.9	4.2%

CHAPTER 4: ADMINISTRATIVE AND GENERAL (A&G) EXPENSES

A) INTRODUCTION

This chapter sets forth DRA's analyses and recommendations for SJWC's A&G Expenses, including Pensions and Benefits (P&Bs). This chapter also sets forth DRA's analyses and recommendations for SJWC's A&G Salaries.

B) SUMMARY OF RECOMMENDATIONS

DRA's estimated total for A&G expenses is $16,991,200 for Test Year 2007. SJWC's total is $18,770,000, which exceeds DRA's estimate by $1,779,300, or 10.5%. The adjustments are in Payroll Expenses and P&Bs. DRA's estimated total for A&G payroll expenses is $4,077,500. SJWC requests $4,425,000, which exceeds DRA's estimate by $347,500, or 8.5%. DRA's estimated total for P&Bs is $9,108,000. SJWC requests $10,538,600 for all P&Bs for Test Year 2007 which exceeds DRA's estimate by $1,430,600, or 15.7%. Other expenses without adjustments are also discussed below.

C) DISCUSSION

DRA analyzed SJWC's reports, supporting work papers, responses to data requests, other information provided in meetings, phone conversations and e-mails, and SJWC's methods of estimating A&G expenses before making its recommendations. DRA appreciates the timely cooperation of SJWC staff in responding to oral and written data requests.

1) A&G PAYROLL EXPENSE

SJWC's RO table for A&G expense segregates the A&G payroll expense as a discrete line item, so there is no need to develop a separate table that does so, as was the case for O&M and A&G expenses. SJWC requests $4,425,000 for A&G salary expense. SJWC's proposal escalates the 2006 A&G payroll expense based on inflation, assumes that there are no unfilled positions during 2007[8] and that its requests for 21 additional positions throughout the company are granted. This can be characterized as a "bottoms up" approach.

DRA's approach can be described as "top down." To account for the impact of unfilled positions and for the normal growth of new positions, as well as inflation, DRA calculated the five year average of inflation-adjusted A&G salaries for 2001-2005 and escalated that from 2005 dollars to 2007 dollars. As discussed above, DRA uses the most recently available labor escalation rates of 3.7% and 3.3% for 2006 and 2007, respectively. These are slightly higher than SJWC's escalation rates of 3.5% and 3.0%. DRA's recommended payroll amount is $4,077,500, a reduction of 8.5% compared to SJWC's request of $4,425,000.

As discussed above, DRA's approach of escalating the historic amount accounts for the historic average of vacancies in constant dollars. The number of customers in SJWC's territory is not growing appreciably so escalation of the historic inflation adjusted average is a realistic and reasonable way to forecast payroll growth.

2) OUTSIDE SERVICES - LEGAL

Outside legal services include the cost of outsourced legal services of a regulatory nature. SJWC seeks $441,000 for 2007, compared to $438,000 estimated for 2006, and the recorded amounts of $491,000 in 2005 and $353,000

in 2004. The trend is clearly upward since implementation of the New Rate Case Plan. Despite this, what SJWC request for 2007 is less than the 2005 and 2006 levels, even before accounting for inflation. Accordingly, DRA accepts SJWC's 2007 Test Year estimate for Outside Legal Services.

3) OUTSIDE SERVICES - OTHER

Outside Services – other refers to "other professional services other than legal i.e. audit and Sarbanes-Oxley reporting requirements"[9] The Sarbanes-Oxley act was adopted in 2002, but its effects were not seen on "Outside Services – Other" until 2004.

SJWC seeks $1,812,000 for 2007, compared to $1,210,000 for 2004, $1,478,000 for 2005 and an estimated $1,777,000 for 2006. The trend is clearly upward. SJWC state that "audit fees in 2006 are expected to increase by $150,000 over projected inflation because of increasing requirements and time spent by accounting firms on audit projects." Escalating the nominal dollar trend of 2002-2005 yields a forecast of $2,027,300 for 2007. SJWC seeks $1,812,000, which is less than the forecast amount. DRA does not object to SJWC's request.

4) PENSIONS AND BENEFITS (P&Bs)

SJWC seeks $10,538,600 for P&B expenses for Test Year 2007. DRA total recommendation for P&Bs is $9,108,000, as discussed below, a reduction of 13.6% over the requested amount. As shown in RO Table 4-1, SJWC's request is 15.7% higher than DRA's recommendation.

Some of the change discussed below reflects updated actuarial information from SJWC. Some reflects reduced P&B obligations commensurate with DRA's

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(continued from previous page)

[8] See data response JXM-6 item 2.

[9] Data Response 6, item 4

reduced payroll projections for O&M and A&G. The changes also reflect updated inflation estimates.

Retirement Plan Contributions are paid to meet pension obligations to existing employees and are proportional to payroll.[10] SJWC estimated $3,948,000 in retirement plan contributions for 2006, and escalated it to $4,342,000 for 2007. However, in response to DR JXM-7, SJWC furnished an updated FAS87 actuarial report dated January 1, 2006, which gave the expected retirement plan obligation for 2006 as $4,700,000. DRA's recommended amount for 2007 is $4,225,900, which is prorated by DRA's recommended 13.0% reduction in total payroll as discussed in the O&M chapter, and is escalated by 3.3% to account for inflation. DRA's recommended amount is 2.7% lower than SJWC's requested amount. DRA's recommended number is preferred because it takes into account the most recent actuarial data and the most recent available inflation estimate for 2007. In no case should the Commission adopt a higher amount than SJWC's requested $4,342,000.

Retirement Savings are matching contributions made by the company to employees' 401(k) plans. Therefore, they are proportional to the payroll expense. Estimated retirement savings have jumped from $792,000 to $1,042,800 from 2005 to 2006, an increase of 31.7%. The increase is based on applying the historic maximum employee contribution of 4% of payroll to SJWC's estimated increase in payroll.[11] The assumption is that all employees make the maximum allowed 401(k) contribution. DRA makes its recommendation by applying the historic proportion of retirement savings to recorded payroll to DRA's recommended total payroll. DRA accepts SJWC's four percent figure as the

[10] Telephone conversation with Ann Lindahl, SJWC
[11] Telephone conversation with Ann Lindahl.

average retirement savings as a percentage of total (O&M and A&G) payroll (O&M and A&G).

As discussed above, DRA's recommended total labor expense for O&M is $14,128,600 and its recommended A&G payroll expense is $4,077,500, for a total of $18,206,200 (the $100 discrepancy is a rounding effect). Multiplying the two yields a retirement savings matching contribution of $728,200, which is 33.9% less than SJWC's requested amount of $1,102,000. DRA's recommended number is preferred because it takes into account historical trends and employee contributions to retirement savings, historical trends regarding payroll size, and the most recent available inflation estimate for 2007.

Employee Stock Purchase Plan expenses are for administrative costs of a new benefit program. SJWC requests $289,600. The program commences in 2006. Therefore there is no historic record of expenses to examine. DRA does not object to the expense, but will examine the expenses in the next GRC.

Unfunded Pensions is payment for unfunded pension obligations to those who are already retired, or about to retire or be terminated.[12] As such, it is not related to the level of current payroll. SJWC requests $306,000, which is in line with the impact of inflation on expenditure levels from 2004 through 2006 (estimated). DRA does not object to the expense but will examine it in the next GRC; full funding of the retirement Plan contribution in proportion to the payroll should restrain the growth of Unfunded Pensions.

Pensions and Benefits Other than Pensions (PBOPs) are for retired persons and therefore are not proportional to the current workforce and are therefore unaffected by DRA's recommended adjustment to payroll. The jump in

[12] Telephone conversation with Ann Lindahl, May 18, 2006

PBOP expenses from $200,000 in 2004 to $1,062,000 in 2005 reflects, in part, a one time $594,000 adjustment due to booking as expense PBOPs which had been booked as capital investment.[13] The remaining difference of $268,000 for 2005 is for an increase in benefits that took effect in 2004. But the $594,000 addition for 2005 was a one time expense so it should not be continued in 2006 estimated expenses or in Test Year 2007.

In response to DR JXM-7, SJWC furnished an updated FAS87 actuarial report dated January 1, 2006, which gave the expected PBOP obligation for 2006 as $608,000. Escalating this quantity to 2007 at 3.3% inflation yields $628,000. This is a reduction of 44.5% compared to the $1,132,900 sought by SJWC in its application, which was an estimate of what the January 1 actuarial report would say.[14] DRA's recommended number is preferred because it takes into account the most recent actuarial data and the most recent available inflation estimate for 2007.

Life, Dental, Health and Disability Insurances are benefits for current employees and are therefore proportional to payroll. Reduce proportionately. SJWC request $3,366,500 for TY 2007. DRA recommends that this amount be reduced to $2,964,509, in proportion to DRA's recommended 11.9% reduction to total payroll expenses.

5) REGULATORY EXPENSES

Regulatory Commission expenses were $2,364,000 in 2005. Nearly all was "pass through expense based on revenue and is charged via the 1.4% surcharge from SJWC's Schedule No. UF."[15] This has been removed, leaving $84.7k for

[13] Ibid.
[14] Ibid.
[15] Data Response JXM-6 item 3

2007 which is "rate case related expenses and are amortized over three years in WP 9-8."[16] However, SJWC's application report states that they seek $250,000 for 2007 for "rate case expense escalated by inflation and amortized over three years."[17] DRA's understanding is that amortization of regulatory expenses is on a straight dollar basis. Amortizing $250,000 over three years yields DRA's recommended regulatory expense of $83,400.

[16] Ibid.

[17] RO report page 9-3

TABLE 4-1

San Jose Water Company
ADMINISTRATIVE AND GENERAL EXPENSES
Test Year 2007

Item	DRA Analysis	SJWC Request	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
		(Dollars in Thousands)		
At Present Rates				
Salaries	4,077.5	4,425.0	347.5	8.5%
Other Supplies	1,167.0	1,167.0	0.0	0.0%
Property Insurance	146.4	146.4	0.0	0.0%
Injuries and Damages	2,383.4	2,383.4	0.0	0.0%
Pensions,Benefits & PBOP	9,108.0	10,538.6	1,430.6	15.7%
Regulatory Commission	83.4	84.7	1.3	1.6%
Outside Services	2,252.9	2,252.9	0.0	0.0%
General Corporate	458.8	458.8	0.0	0.0%
Dues& Membership	249.9	249.9	0.0	0.0%
Rents	515.6	515.6	0.0	0.0%
Maintenance Expense	466.8	466.8	0.0	0.0%
A & G Expenses Treansferred	-3,918.5	-3,918.5	0.0	0.0%
Total A&G Expenses	16,991.2	18,770.5	1,779.3	10.5%

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CHAPTER 5: TAXES OTHER THAN INCOME

A. INTRODUCTION

This chapter sets forth DRA's analysis and recommendations of "Taxes Other Than Income" for SJWC for test year 2007. Taxes Other Than Income include ad valorem tax (property tax), business licenses, franchise, and payroll taxes. The business license for the City of San Jose is a fixed amount while the business license for the Town of Los Gatos is based on the number of installed fire hydrants. Franchise taxes are required by the County of Santa Clara, the Cities of Cupertino, Saratoga, Monte Sereno, and Campbell. The tax is based on 2% of revenue attributable to the actual use of the public right-of-ways. Ad valorem taxes are property taxes paid on net utility plant. Payroll taxes generally include social security tax, Federal Insurance Contribution Act (FICA) tax consisting of Old Age Benefits and Medicare, Federal Unemployment Insurance (FUI), State Unemployment Insurance (SUI).

DRA's and SJWC's estimates of Taxes Other Than Income for the test year 2007 are included in the tables at the end of the chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methodology that SJWC proposes using to determine the estimated expenses for test year 2007 for ad valorem taxes. SJWC proposes using an effective tax rate that represents the five-year average tax rate for the most recent tax periods (2001-2005). Additional differences in the taxes or fees are due to differences between DRA and SJWC estimates of plant additions and payroll expenses. A comparison of DRA's and the company's estimates is shown in Table 5-1.

C. DISCUSSION

1) AD VALOREM TAXES

SJWC used an effective tax rate of 0.0118 to calculate the ad valorem taxes. This tax rate is the effective tax rate for 2005 and is forecast to remain in place for the test period as the result of more uniform assessment methods and new limits on tax rate and assessment increases. Generally, DRA uses the most recently recorded actual tax rate to calculate ad valorem tax.

DRA agrees with SJWC's methodology for this rate case period.

2) PAYROLL TAXES

Payroll Taxes include the employer's share of tax withholding, Medicare, Federal Insurance Contributions Act (FICA) and Federal and State unemployment taxes FUI and SUI. DRA differs with SJWC's estimated Payroll Taxes. DRA's estimates shown in Table 5 – A should be adopted. Differences between DRA and SJWC are due to different estimates of payroll costs.

San Jose Water Company
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TABLE 5 – A
TEST YEAR 2007 PAYROLL TAXES

Year	**San Jose Water Company**	**FICA + Medicare**	**SUI**	**FUI**	**TOTAL**
2007	Tax Amount:	$1,836,513	$19,600	$19,600	**$1,875,713**
Year	**DRA Recommendation**	**FICA + Medicare**	**SUI**	**FUI**	**TOTAL**
2007	Tax Amount:	$1,689,000	$19,600	$19,600	**$1,728,200**

D. CONCLUSION

Ad Valorem Taxes

Differences between DRA and SJWC are attributable to the differences in Plant estimates.

Payroll Taxes

Differences between DRA and SJWC are attributable to the differences in payroll estimates.

TABLE 5-1

San Jose Water Company
TAXES OTHER THAN INCOME
Test Year 2007

Item	DRA Analysis	SJWC Estimated	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
At Present Rates				
City and County				
Ad Valorem Tax:	3,175.0	3,274.7	99.7	3.1%
Business Licenses	30.9	30.9	0.0	0.0%
Payroll taxes	1,728.2	1,875.7	147.5	8.5%
Franchise at Present	459.0	459.0	0.0	0.0%
Total Taxes at Present	5,393.1	5,640.3	247.2	4.6%
Franchise at Proposed	498.2	498.2	0.0	0.0%
Total Taxes at Proposed	5,432.2	5,679.5	247.2	4.6%

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CHAPTER 6: INCOME TAXES.

A. INTRODUCTION

This chapter sets forth DRA's analysis of Income Taxes. Tables 6-1 and 6-2 compare the details of the tax deductions and taxes estimated by DRA and SJWC for Test Year 2007.

B. SUMMARY OF RECOMMENDATIONS

DRA agrees with the methods San Jose Water Company used to calculate Income Taxes. However, DRA's income tax estimates differ from those of San Jose Water Company. DRA's lower O&M expenses, A&G expenses, payroll, and interest calculations have made a difference in the final tax estimates. Additional differences result from DRA's different depreciation expenses. These differences result in DRA's estimate of income taxes being higher than San Jose Water Company's. San Jose Water Company's total estimate for CCFT and FIT combined is $9,068,000 for 2007 at present rates, whereas DRA's estimate is $13,092,200.

C. DISCUSSION

The tax deductions and credits in this proceeding were calculated in accordance with the normalization requirements of the Economic Recovery Tax Act of 1981 (ERTA). Further, the provisions of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) have been incorporated in the tax deduction

estimates. Finally, the provisions of the Tax Reform Act of 1986 (TRA 86) have been estimated and included into this general rate case in accordance with the requirements of Decision 87-09-026 dated September 10, 1987, Decision 87-12-028 dated December 9, 1987, and Decision 88-01-061 dated January 28, 1988.

To calculate the interest deduction San Jose Water Company used its rate base and multiplied by the weighted cost of debt. DRA used the same method. However, DRA followed the policy outlined in D.03-12-040 because working cash is part of the rate base and therefore should be considered when calculating the deduction for interest on debt during the calculation of income taxes.

At this time San Jose Water Company believes that the impact of the American Jobs Creation Act of 2004 (section 199 of the Internal Revenue Code), which became effective for taxable years beginning in 2005, can not yet be determined. San Jose Water Company believes that the impact will be immaterial. DRA's interpretation of the American Jobs Creation Act of 2004 is that the activities relating to the production of potable water are covered by the American Jobs Creation Act of 2004. DRA recommends a memo account be established to track the tax impact arising from the American Jobs Creation Act of 2004.

D. CONCLUSION

Differences in the income taxes are attributable to the differences in O&M and A&G Expenses and plant estimates.

TABLE 6-1

San Jose Water Company
INCOME TAXES
Test Year 2007

Item	DRA Analysis Present Rates	SJWC 2007 Present Rates	SJWC Exceeds DRA Amount	SJWC Exceeds DRA %
	(Dollars in Thousands)			
Operating Revenues	171,391.2	171,143.0	-248.2	-0.1%
Expenses				
Oper. & Maint. Excl. Dep & tax	111,822.1	117,416.3	5,594.2	5.0%
Transportation Depreciation	-757.7	-757.7	0.0	0.0%
Interest expense	10,450.0	12,384.0	1,934.0	18.5%
Less 50% Meals disallowed	-33.7	-33.7	0.0	0.0%
Expenses Subtotal	121,480.7	129,008.9	7,528.2	6.2%
CCFT				
Tax Depreciation	-16,906.0	-18,399.2	-1,493.2	8.8%
Taxable Income Incl. Def. Rev.	33,004.5	23,734.9	-9,269.6	-28.1%
CCFT (at 8.84%)	2,917.6	1,967.9	-949.7	-32.5%
FIT				
Tax Depreciation	-17,691.4	-18,175.7	-484.3	2.7%
CCFT	-2,917.6	-1,967.9	949.7	-32.5%
Taxable Inc. excl. Def. Rev.	29,053.4	21,742.4	-7,311.0	-25.2%
Tax @ 35.00%	10,168.7	7,609.8	-2,558.9	-25.2%
Amortization of Unrecov. Prepaid Tax on CIAC & Advances	5.9	5.9	0.0	0.0%
FIT total	10,174.6	7,100.1	-3,074.5	-30.2%
Total Income Tax	13,092.2	9,068.0	-4,024.2	-30.7%

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TABLE 6-2

San Jose Water Company
INCOME TAXES
Test Year 2007

Item	DRA Analysis at SJWC 2007 Proposed Rates	SJWC at 2007 Proposed Rates	SJWC Exceeds DRA	
			Amount	%
	(Dollars in Thousands)			
Operating Revenues	186,228.2	186,228.2	0.0	0.0%
Expenses				
O& M Excl. Dep & tax	113,029.4	119,206.0	6,176.6	5.5%
Transportation Depreciation	-757.7	-757.7	0.0	0.0%
Interest expense	10,455.5	12,384.0	1,928.5	18.4%
Less 50% Meals disallowed	-33.7	-33.7	0.0	0.0%
Expenses Subtotal	122,693.5	130,798.6	8,105.1	6.6%
CCFT				
Tax Depreciation	16,906.0	18,399.2	1,493.2	8.8%
Taxable Income Incl. Def. Rev.	46,876.9	36,839.4	-10,037.5	-21.4%
CCFT (at 8.84%)	4,143.9	3,256.6	-887.3	-21.4%
FIT				
Tax Depreciation	-17,691.4	-18,175.7	-484.3	2.7%
CCFT	-2,380.3	-2,380.3	0.0	0.0%
Taxable Inc. excl. Def. Rev.	43,463.0	34,434.4	-9,028.6	-20.8%
Tax @ 35.00%	15,212.1	12,052.0	-3,160.0	-20.8%
Amortization of Unrecov. Prepaid Tax on CIAC & Advances	5.9	5.9	0.0	0.0%
FIT total	15,218.0	12,057.9	-3,160.0	-20.8%
Total Income Tax	19,361.9	15,314.6	-4,047.3	-20.9%

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CHAPTER 7: NET-TO-GROSS MULTIPLIER

A. INTRODUCTION:

This chapter presents DRA's analysis and recommendations for the net-to-gross multiplier. The net-to-gross multiplier represents the change in gross revenue required to produce a unit change in net revenue.

B. SUMMARY OF RECOMMENDATIONS

DRA's and SJWC's net-to-gross multiplier calculations is shown in Table 7-1. DRA accepts SJWC's net-to-gross multiplier of 1.6955.

Table 7-1

Uncollectible Rate…….....	0.1954%
Local Franchise Tax Rate……	0.2682%
Business License…….	0.000%
California Corporation Franchise Tax Rate……	8.84%
Federal Income Tax Rate……	35.00%

C. DISCUSSION

SJWC and DRA use the same methodology to calculate the net-to-gross multiplier. DRA accepts SJWC's uncollectibles rate and franchise tax rate. Both DRA and SJWC calculated a multiplier of 1.6955 which represents the change in gross revenue required to produce a unit change in net revenue. Thus, using this multiplier to increase the net revenue by $1.00 requires an increase of $1.6955 (1.6955 x $1.00) in SJWC's gross revenue.

D. CONCLUSION

DRA and SJWC used the same methodology to calculate the Net-to-Gross multiplier of 1.6955.

CHAPTER 8: UTILITY PLANT IN SERVICE

A. INTRODUCTION

DRA's and SJWC's estimates for Plant in Service for test year 2007 and escalation year 2008 are shown in Tables 8-1 and 8-2 at the end of this chapter.

DRA reviewed and analyzed SJWC's testimony, application, workpapers, capital project details, estimating methods, and responses to various DRA data requests. DRA also conducted a field investigation of most of the major proposed specific plant additions before making its own independent estimates including adjustments where appropriate. Important and significant differences between DRA's and SJWC's estimates of specific and non-specific plant additions are attributed to the items as tabulated in Tables 8-A, 8-B and 8-C for the years 2006, 2007 and 2008 respectively.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends that 1) plant additions for twenty three capital projects in 2006 be adjusted, disallowed, deferred or covered under advice letters, 2) plant additions for twenty one capital projects in 2007 be adjusted, deferred or covered under advice letters, and 3) plant additions for twenty capital projects in 2008 be adjusted, deferred or covered under advice letters as described in Section C below. Based on these recommendations, DRA's estimates for the 2006, 2007 and 2008 plant additions are $24,749,250, $25,893,500 and $30,405,800 respectively versus

SJWC's proposed amounts of $39,949,900, $42,831,100 and $46,915,500 respectively for the same years.

The total number of advice letters that DRA has recommended for 2006 is eight, for 2007 it is ten and for 2008 it is also ten. DRA realizes that this would become an enormous administrative burden for the staff in the Commission's Water Division who will review the advice letters in the future. In order to reduce the burden, DRA recommends that SJWC consolidate the advice letter filings for these projects and file no more than two advice letters per year. DRA also recommends that should SJWC exceed the cap amount of any project under the advice letter proposal, the company be required to provide the reason and detailed cost breakdown in the next general rate case so that DRA can review the reasonableness of the cost overrun.

Table 8-A

Recommended Plant Addition Adjustments for 2006

Item No.	Project No.	Description	SJWC	DRA
1	136	Install boat launch at Lake Elsman.	$156,000	Advice Letter
2	2917	Replace 2 wells, one each at Meridian and Bascom Stations which have deteriorated yield	$2,288,000	Advice Letter
3	3299	Surface Runoff & Erosion Protection at Austrian Dam.	$416,000	Advice Letter
4	317	Replace membranes at Saratoga Filter Plant (1998). Existing membranes have reached the end of their useful life.	$612,600	$570,600.00
5	3301	Replace Portacel Adjustable Valve Positioners with new diaphragm pumps for chlorine dosing at groundwater stations.	$196,400	$180,000.00
6	3080	Interior/Exterior coating at Tank #1, pump roof and control valve.	$725,500	Advice Letter
7	3280	Replace steel tank with 10,000 gal Polyethelyne tank, install SCADA control and replace segments of Howell Flume	$156,000	$143,000
8	1315	Replace Motor Control Center at Bascom Ave. Station.	$548,100	$510,500
9	1338	Replace Motor Control Center and Boosters at 12th St. Station.	$1,830,400	$1,642,000
10	3079	Replace MCC & B-3, B-4 at Congress Juction Station.	$842,400	$727,400
11	1201	Replace 30" WS with 9470' of 36" DICL & HDPE pipe at Lexington Reservoir and Alma Bridge Rd.	$7,163,000	Advice Letter
12	2722	Replace 20" SI with 1,380' of 20" DICL Pipe and 20" DCCL Pipe within Willow Glen Way between Arbor Dr. & Cross Wy. including Willow Glen Way Bridge at Guadalupe River.	$720,700	Advice Letter
13	3307	Retirement of 9,700' of 30" Pipe from MWTP to Alma Bridge Rd, crossing Lexington Reservoir - Raw Water Pipeline	$1,456,000	Disallowed
14	28	2" & under. To renew all services for main replacements, emergency service renewal where repair is difficult and service relocation in conjunction with City, County and State projects.	$2,496,000	$2,000,000
15	265	Install four (4) hydrants as requested by Santa Clara County Fire Departments at various locations. (Campbell, Los Gatos and Unincorporated County) (Year 4 of a 4 Year Program).	$45,400	$21,600
16	1371	Purchase five (5) server computers. Replacing BDC, Backflow, GIS, Print server and Websense.	$57,200	$30,000
17	1373	Purchase fifty (50) personal computers (combination of desktop and laptop). (Information Technology)	$171,600	$105,000
18	1377	Replace twelve (12) network switches at Main computer room, Main front building(basement), 1221 & 1265 So. Bascom, Purchasing and Maintenance	$275,600	$192,000
19	3286	Replace fuel management system (1998).	$93,600	$78,750
20	181	Purchase of replacement vehicles	$699,400	$339,000
21	3175	Upgrade Landscaping and/or Irrigation controls at various locations.	$60,600	$50,000
22	3278	New Bulk Material storage, trench spoil drying facility and equipment storage garage.	$468,000	Advice Letter
23	3297	Purchase Caterpillar backhoe-loader, trailer and 12-yd dump truck.	$312,000	Advice Letter

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1) Project 136 – Install boat launch at Lake Elsman.

SJWC proposed $156,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need which is to provide a safe method to sample the lake water. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that design plans have not yet been completed and the estimate was based on a conceptual plan and verbal discussions with a contractor. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $156,000 when the project is completed.

2) Project 2917 – Replace two wells at Meridian and Bascom.

SJWC proposed $2,288,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project based on a 2005 well and groundwater study and agrees with the company on the need in general. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that new information from an on-going consultant study may change this selection. The estimate was derived by inflating the cost of a well installation at Grant Street Station in 1995 to 2006 dollars. In a presentation to DRA during the field trip in March 2006, SJWC indicated that they would also explore the feasibility of well rehabilitation versus well replacement as a well rehabilitation cost would be substantially less than a well replacement cost. DRA considered the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter

capped at the amount of $2,288,000 when the project is completed based on well replacement.

3) Project 3299 – Erosion Protection at Austrian Dam

SJWC proposed $416,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need which is required by the California Department of Dam Safety. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that final design plans have not yet been completed and the estimate was based on a conceptual design with several alternatives. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $416,000 when the project is completed.

4) Project 317 – Replace membranes, Saratoga Plant

SJWC proposed $612,600 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing membranes have reached the end of their useful life. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a firm quote from a contractor dated November 18, 2005 which showed a total estimate of $570,600 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount. Therefore DRA recommends that the cost for this project be adjusted from $612,600 to $570,600.

5) Project 3301 – Replace Adjustable Valve Positioners

SJWC proposed $196,400 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing equipment no longer delivers consistent dosages of chlorine. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC submitted a detailed cost breakdown which contained a 15% contingency. DRA believed that this project is not one of extraordinary complexity and a 10% contingency would be more reasonable. Based on 10% contingency, DRA calculated the total estimate to be $180,000. Therefore DRA recommends that the cost for this project be adjusted from $196,400 to $180,000.

6) Project 3080 – Tank Coating at Lower Northwood

SJWC proposed $725,500 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing coatings are in poor condition and beyond their useful life. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that the estimate was based on a consultant report in 2003 with an estimate of $512,425 at that time. SJWC then added new valves, piping, contingency, overhead and inflation to arrive at the estimate of $725,500 without showing any details. SJWC also made comparison to a more recent tank coating project at Hickerson Station in August 2005 but the contractor quote had a total cost of $349,000 only. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $725,500 when the project is completed.

7) Project 3280 – Replace Tank at Howell Reservoir

SJWC proposed $156,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the the company on the need as the existing steel tank is in poor condition. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a firm quote from a contractor dated January 3, 2006 which showed a total estimate of $125,313. Adding SJWC's standard overhead to this amount, DRA calculated a more reasonable estimate to be $143,000. Therefore DRA recommends that the cost for this project be adjusted from $156,000 to $143,000.

8) Project 1315 – Replace Motor Control Center, Bascom Station

SJWC proposed $548,100 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a firm quote from a contractor which showed a total estimate of $364,000. Adding support fee of $65,000 for permits and company labor, contingency at 5% and overhead at 14% to the contractor's cost, DRA calculated a more reasonable total estimate to be $510,500. Therefore DRA recommends that the cost for this project be adjusted from $548,100 to $510,500.

9) Project 1338 – Replace Motor Control Center, 12th St. Station

SJWC proposed $1,830,400 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a firm quote from a contractor dated July 27, 2005 which showed a total cost of $1,250,000. Adding support fee of $70,000 for permits and company labor, PG&E fee of $60,000, contingency at 5% and overhead at 14% to the contractor's cost, DRA calculated a more reasonable total estimate to be $1,642,000. Therefore DRA recommends that the cost for this project be adjusted from $1,830,400 to $1,642,000.

10) Project 3079 – Replace Motor Control Center, Congress Station

SJWC proposed $842,400 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a firm quote from a contractor dated July 27, 2005 which showed a total cost of $534,000. Adding support fee of $77,000 for permits and company labor, contingency at 5% and overhead at 14% to the contractor's cost, DRA calculated a more reasonable total estimate to be $727,400. Therefore DRA recommends that the cost for this project be adjusted from $842,400 to $727,400.

11) Project 1201 – Replace 30-inch Main at Lexington Reservoir

SJWC proposed $7,163,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing 30-inch steel main was installed in the early 1950s and has a history of numerous leaks and failures in recent years. In the detailed narrative on this project, SJWC indicated that the combined operation and maintenance savings after this main is replaced should be in the order of $75,000 per year and additional savings from not having to do emergency repairs should average $100,000 per year. However, DRA found confusing information in evaluating the estimate in SJWC's response to DRA's data request. SJWC had submitted a confidential sheet dated April 7, 2005 showing a low contractor bid of $4,792,115 including limited removal of the existing main. SJWC also submitted a construction agreement dated January 3, 2005 with the same contractor showing a grand total cost of $7,875,334 which seemed to include complete removal of the existing main and an optional slurry filling which may or may not be required. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $7,163,000 when the project is completed.

12) Project 2722 – Replace Main on Willow Glen Way

SJWC proposed $720,700 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to relocate the main in order to accommodate a bridge replacement project undertaken by the City of San Jose and the Santa Clara Valley Water District. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. In the progress

report submitted by SJWC as of March 16, 2006, the company indicated that construction has already started but offered no detailed cost breakdown other than a lump sum total of $720,700. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $720,700 when the project is completed.

13) Project 3307 – Retirement of Main at Lexington Reservoir

SJWC proposed $1,456,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as the existing 30-inch steel main was installed in the early 1950s and has a history of numerous leaks and failures in recent years. However, DRA disagrees with SJWC on the estimate for this project in its entirety. As described in Paragraph 11 above for Project 1201, the removal cost of this existing main has already been reflected in that project. Therefore DRA recommends that the proposed plant addition of $1,456,000 for this project be disallowed.

14) Project 28 – Renew all service lines, 2" and under

SJWC proposed $2,496,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace old, leaking service lines on existing mains as well as when new mains are installed. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC indicated that the estimate was based on a historic trend of actual costs since 2000. DRA found that the actual costs were less than the budgeted amounts in some years and

more than the budgeted amounts in other years. DRA believed that taking an average of actual costs in past years (except 2005 where the actual cost was out of range) would be more reasonable to forecast future costs. DRA calculated the average of the actual costs from 2000 to 2004 to be $2,000,000. Therefore DRA recommends that the estimate for this project be adjusted from $2,496,000 to $2,000,000.

15) Project 265 – Install 4 hydrants, various locations

SJWC proposed $45,400 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to install these hydrants as requested by the Santa Clara County Fire Department. However, DRA disagrees with SJWC on the estimate for this project. In its review of other similar hydrant projects in 2006 such as Projects 86 and 87, DRA found that the unit cost of a typical hydrant was around $5,400 but the unit cost of each hydrant in this project was over $11,000 which is twice as much. SJWC did not provide any support information for the high unit cost in this project. DRA believes that the other $5,400 unit cost would be more reasonable. Therefore DRA recommends that the estimate for this project be adjusted from $45,400 to $21,600.

16) Project 1371 – Replace five server computers

SJWC proposed $57,200 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace these server computers since they are already five years old. However, DRA disagrees with SJWC on the estimate for this project. In its review of original costs of these five server computers, DRA found that the total cost was around $27,000. SJWC did not provide any detailed cost breakdown

for the high total cost in this project. DRA believes that computer costs have not gone up much in the past few years so the original total cost adjusted for a 10% increase would be more reasonable. Therefore DRA recommends that the estimate for this project be adjusted from $57,200 to $30,000.

17) Project 1373 – Replace fifty personal computers

SJWC proposed $171,600 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the existing personal computers since they were purchased between 1995 and 2000. However, DRA disagrees with SJWC on the estimate for this project. In its review of a detailed cost breakdown provided by SJWC, DRA found the unit costs of a standard laptop at $3,000 and a hardened laptop at $6,000 to be excessive. DRA conducted a check of laptop prices on the internet and found that a more reasonable price for a standard laptop would be $1,500 and that for a hardened laptop would be $4,000. With these unit prices, DRA calculated the total estimate for this project to be $105,000. Therefore DRA recommends that the estimate for this project be adjusted from $171,600 to $105,000.

18) Project 1377 – Replace twelve network switches

SJWC proposed $275,600 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace the existing network switches since they were purchased in 2000. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC provided two separate sheets

of vendor quotes both dated July 8, 2005 showing a total cost of $192,000 only which reflected some discounts to SJWC. DRA considers the vendor quote to be more reasonable than the proposed amount by SJWC. Therefore DRA recommends that the estimate for this project be adjusted from $275,600 to $192,000.

19) Project 3286 – Replace fuel managing system

SJWC proposed $93,600 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace the existing system since it has experienced a high rate of failures and technical support is no longer available from the manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC provided two separate sheets of vendor quotes both dated March 13, 2006 showing a total cost of $78,750 only. DRA considers the vendor quote to be more reasonable than the proposed amount by SJWC. Therefore DRA recommends that the estimate for this project be adjusted from $93,600 to $78,750.

20) Project 181 – Replace nineteen vehicles

SJWC proposed $699,400 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace some of the vehicles but not the others. In its response to DRA's data request, SJWC provided the age and mileage of each existing vehicle. DRA compared the data to the policy of vehicle replacement at the Commission which

states that a vehicle is eligible for replacement when either the vehicle is 8 years old or the mileage reaches 120,000 miles. DRA found that out of the nineteen proposed vehicles, only nine vehicles are eligible for replacement. DRA believed that the remaining vehicles should be deferred to 2007 for replacement when they become 8 years old or reach 120,000 miles. Based on this finding, DRA calculated the total estimate for eligible vehicles to be $339,000. Therefore DRA recommends that the estimate for this project be adjusted from $699,400 to $339,000.

21) Project 3175 – Landscaping at various locations

SJWC proposed $60,600 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to provide its facilities with aesthetic appeal and better blend with the surrounding communities. In its response to DRA's data request, SJWC listed all the locations and the cost at each location. DRA found that most of the costs are in the range of several thousand dollars with the exception at the Cox Avenue Station where the cost is over $20,000. SJWC did not provide any support information as to why this location needs such a high cost landscaping. DRA believed that it should be adjusted to $10,000 to be close to the second highest cost at the Fleming Avenue Station ($9,080). Therefore DRA recommends that the estimate for this project be adjusted from $60,600 to $50,000.

22) Project 3278 – New bulk material storage

SJWC proposed $468,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the

company on the need to replace the existing Campbell Corporate Yard Facility that has been sold in 2005. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC just indicated that the estimate was based on a similar facility built in 2003 at its Breeding Station without giving any detailed cost breakdown. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $468,000 when the project is completed.

23) Project 3297 – Purchase excavation equipment

SJWC proposed $312,000 in plant addition for this capital project in 2006. DRA reviewed SJWC's detailed justification for this project and agrees with the need for SJWC to purchase its own excavation equipment. DRA found this project to be cost effective since it has a relatively short payback of five years as SJWC indicated that the annual operational savings would be $38,372. However, DRA did not see a firm contractor bid or quote to support the estimates for the back-hoe loader at $100,990 and the dump truck at $145,000 in SJWC's response to DRA's data request. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $312,000 when the project is completed.

Table 8-B

Recommended Plant Addition Adjustments for 2007

Item No.	Project No.	Description	SJWC	DRA
24	1301	Install flowmeters at SCVWD/SJWC turnouts. Phase 2 of 3 phases.	$116,800	$108,000
25	2917	Replace 2 wells which have deteriorated as identified in SJWCs 2005 Well and Groundwater Study.	$2,379,500	Advice Letter
26	185	Replace Greenridge Tank #1 and stabilize hillside.	$1,352,000	Advice Letter
27	3077	Replace damaged columns and roof of reservoir.	$540,800	$357,000
28	3088	Replace old 300K gal steel tank with new 1 million gal steel tank, including inlet/outlet pipes and altitude valve.	$1,693,700	Advice Letter
29	3094	Replace MCC at 3-Mile station.	$1,514,200	$1,120,000
30	3107	Replace MCC at Buena Vista Station.	$973,400	$900,000
31	3295	Replace MCC at Cottage Station	$454,300	$366,000
32	1064	Replace 18" WS with 2,650' of 18" DICL Pipe on Seven Mile Res thru R/W to Burton Rd. (1950)	$1,034,800	Defer to 2009
33	1200	Replace 22" WS with 3,025' of 30" Pipe for Hooker raw water transmission from intake downstream.	$2,061,500	Advice Letter
34	2956	Replace 16" CI with 3,060' of 16" DICL Pipe on The Alameda from 150' South of Shasta Ave to White St. (1914)	$1,214,700	Advice Letter
35	2975	Replace 36" SI with 2,430' of 36" DICL Pipe on College Dr. from Moorpark Ave. to Southwest Exprwy. (1941)	$1,958,700	Defer to 2009
36	3008	Replace 4" CI with 300' of 12" DICL Pipe on W. Virginia St. between 4th St. & 5th St. (1926)	$552,700	Advice Letter
37	3011	Replace 6" CI with 1,250' of 12" DICL Pipe on First St. from W. San Carlos St. to Williams St. (1885)	$611,100	Advice Letter
38	28	2" & under. To renew all services for main replacements, emergency service renewal where repair is difficult and service relocation in conjunction with City, County and State projects.	$2,812,200	$2,000,000
39	1371	Purchase four (4) Server computers. Replacing Symposium, IDVR, Saratoga RAS and GIS servers.	$48,700	$35,000
40	1376	SCADA system is at the end of its useful life. (Year 2 of a 3 Year program).	$540,800	Advice Letter
41	3111	Purchase and install AMR drive-by system to read Cycle 42 (monthly) meters. (Phase 1 of 2)	$832,800	Advice Letter
42	3238	Purchase eighteen (18) Laptop computers and software for crews' field data entry.	$199,400	$175,000
43	181	Purchase of replacement vehicles	$729,600	$520,800
44	2918	Construct new 6000 sf records storage facility.	$897,700	Advice Letter

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24) Project 1301 – Install flowmeters at SCVWD turnout

SJWC proposed $116,800 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need as a means to validate the accuracy of billing for purchased water. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $108,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $116,800 to $108,000.

25) Project 2917 – Replace two wells per study

SJWC proposed $2,379,500 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project based on a 2005 well and groundwater study and agrees with the need in general. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that new information from an on-going consultant study may change the selection of locations and the estimate was based on a similar well project completed in 1996 and then inflated it to 2007 dollars at 4% per year. In a presentation to DRA during the field trip in March 2006, SJWC indicated that they would also explore the feasibility of well rehabilitation versus well replacement as a well rehabilitation cost would be substantially less than a well replacement cost. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $2,379,500 when the project is completed.

26) Project 185 – Replace Tank #1 at Greenridge Terrace

SJWC proposed $1,352,000 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the existing tank due to its age and condition and to stabilize the steep hillside which is eroding. In its response to DRA's data request, SJWC provided a detailed in-house cost breakdown dated July 15, 2005 which showed a total estimate of $1,311,000 including company labor, contingency and overhead. SJWC also indicated that the solution to stabilize the hillside would be either the construction of a tie-back wall or to flatten the existing near vertical slope by grading onto private property. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,311,000 when the project is completed.

27) Project 3077 – Replace reservoir roof and columns

SJWC proposed $540,800 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need as a means to maintain the structural integrity of the reservoir. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC submitted two contractor proposals totaling $270,000 only for the roof and column work. Adding company labor and permit fee at $28,000 as shown by SJWC on a detailed cost breakdown and the standard contingency and overhead, DRA calculated that a more reasonable estimate for this project should be $357,000. Therefore DRA recommends that the cost for this project be adjusted from $540,800 to $357,000.

28) Project 3088 – Replace tank at Alum Rock Station

SJWC proposed $1,693,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the existing tank as it is deteriorated and beyond repair. In its response to DRA's data request, SJWC provided a detailed in-house cost breakdown dated September 5, 2005 which showed a total estimate of $1,565,000 including 15% contingency. DRA considers the 15% contingency to be excessive as a tank project such as this should not be complex and a 10% contingency would be more reasonable. In the absence of firm contractor bids or quotes for the tank itself estimated at $1,373,000, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,510,000 which includes a 10% contingency when the project is completed.

29) Project 3094 – Replace Motor Control Center, 3-mile Station

SJWC proposed $1,514,200 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a firm quote from an electrical contractor which showed a total cost of $780,000. Adding a support fee of $80,000 for permits and company labor, $80,000 for PG&E fee and standard contingency and overhead to the contractor's cost, DRA calculated that a more reasonable estimate for this project should be $1,120,000. Therefore DRA

recommends that the cost for this project be adjusted from $1,514,200 to $1,120,000.

30) Project 3107 – Replace Motor Control Center, Buena Station

SJWC proposed $973,400 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a firm quote from an electrical contractor which showed a total cost of $671,000. Adding a support fee of $40,000 for permits and company labor, $40,000 for PG&E fee and standard contingency and overhead to the contractor's cost, DRA calculated that a more reasonable estimate for this project should be $900,000. Therefore DRA recommends that the cost for this project be adjusted from $973,400 to $900,000.

31) Project 3295 – Replace Motor Control Center, Cottage Station

SJWC proposed $454,300 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need as the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a firm quote from an electrical contractor which showed a total cost of $258,000. Adding a support fee of $50,000 for permits and company labor, standard contingency and overhead to the contractor's cost, DRA calculated that a more reasonable estimate for this

project should be $366,000. Therefore DRA recommends that the cost for this project be adjusted from $454,300 to $366,000.

32) Project 1064 – Replace main on Burton road

SJWC proposed $1,034,800 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and disagrees with the company on its need in this general rate case for the following reasons. First, DRA noted that for 2006, SJWC has proposed a total of forty three main replacement projects with a total budget of about $18,000,000. For 2007, SJWC has proposed a total of fifty three main replacement projects with a total budget of about $21,000,000. The average annual main replacement budget in 2003, 2004 and 2005 has been about $14,000,000. Second, in a response to DRA's data request, SJWC submitted a list showing the relative priority of each proposed main replacement in 2007 and DRA noted that this project has a very low priority due to the fact that the existing main has not experienced any leaks so far in its history. DRA believes that there is no urgency to replace this main which has a substantial cost in this rate case. Therefore DRA recommends that this project be deferred to the next general rate case for replacement.

33) Project 1200 – Replace main for Hooker Intake

SJWC proposed $2,061,500 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace this main as it has experienced numerous leaks. However, in the detailed narrative for this project, SJWC did not explain

how the proposed estimate was derived even though this main replacement involves substantial cost. SJWC just showed the estimate as a lump sum without any further breakdown. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $2,061,500 when the project is completed.

34) Project 2956 – Replace main on The Alameda

SJWC proposed $1,214,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace this main as it has experienced numerous leaks. However, in the detailed narrative for this project, SJWC did not explain how the proposed estimate was derived even though this main replacement involves a substantial cost. SJWC just showed the estimate as a lump sum without any further breakdown. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,214,700 when the project is completed.

35) Project 2975 – Replace main on College Drive

SJWC proposed $1,958,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and disagrees with the company on its need in this general rate case for the following reasons.

First, DRA noted that for 2006, SJWC has proposed a total of forty three main replacement projects with a total budget of about $18,000,000. For 2007, SJWC has proposed a total of fifty three main replacement projects with a total budget of about $21,000,000. The average annual main replacement budget in 2003, 2004 and 2005 has been about $14,000,000. Second, in a response to DRA's data request, SJWC submitted a list showing the relative priority of each proposed main replacement in 2007 and DRA noted that this project has a very low priority due to the fact that the existing main has not experienced any leaks so far in its history. DRA believes that there is no urgency to replace this main which has a substantial cost in this rate case. Therefore DRA recommends that this project be deferred to the next general rate case for replacement.

36) Project 3008 – Replace main on Virginia Street

SJWC proposed $552,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 12-inch main replacement is about $1,800 per linear foot. Other 12-inch main replacement projects in 2007 have a unit cost of about $300 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $552,700 when the project is completed.

37) Project 3011 – Replace main on First Street

SJWC proposed $611,100 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 12-inch main replacement is about $500 per linear foot. Other 12-inch main replacement projects in 2007 have a unit cost of about $300 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $611,100 when the project is completed.

38) Project 28 – Renew all service lines, 2" and under

SJWC proposed $2,812,200 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace old, leaking service lines on existing mains as well as when new mains are installed. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC indicated that the estimate is based on a historic trend of actual costs since 2000. DRA found that the actual costs were less than the budgeted amounts in some years and more than the budgeted amounts in other years. DRA believes that taking an average of actual costs in past years (except 2005 where the actual cost was out of range) would be more reasonable to forecast future costs. DRA calculated the average of actual

costs from 2000 to 2004 to be $2,000,000. Therefore DRA recommends that the estimate for this project be adjusted from $2,812,000 to $2,000,000.

39) Project 1371 – Purchase four server computers

SJWC proposed $48,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace these server computers since they would be five years old by 2007. However, DRA disagrees with SJWC on the estimate for this project. In its review of original costs of these four server computers, DRA found that the total cost was around $31,000. SJWC did not provide any detailed cost breakdown for the proposed estimate in this project. DRA believes that computer costs have not gone up much in the past few years so the original total cost adjusted for a modest 10% increase would be more reasonable. Therefore DRA recommends that the estimate for this project be adjusted from $48,700 to $35,000.

40) Project 1376 – Replace SCADA system

SJWC proposed $540,800 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the SCADA system since the current system was originally installed in 1992 and would be at the end of its useful life by 2007. In the detailed narrative on this project, SJWC indicated that this project represents Phase II of a three phase program and involves a feasibility study to identify needs and the design of the system architecture. SJWC just showed the anticipated cost for Phase II as $540,800 without any supporting documentation. In the absence of firm

contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $540,800 when the final phase is completed in 2008.

41) Project 3111 – Install automatic meter reading system

SJWC proposed $832,800 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to perform the meter reading task more efficiently for its largest customers. DRA found this project to be cost effective since SJWC indicated that the project has a relatively short payback period of less than six years and that one meter reading position would be eliminated in 2009. However, DRA did not see a firm contractor bid or quote to support the proposed estimate in SJWC's response to DRA's data request. SJWC indicated that this project represents Phase I of a two phase program and that the prices for the proposed system will probably decrease some by 2007 to 2008. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $832,800 when the final phase is completed in 2008.

42) Project 3238 – Purchase eighteen laptop computers

SJWC proposed $199,400 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to enable the crew to do their work more efficiently in the

field. However, DRA disagrees with SJWC on the estimate for this project. In its review of a detailed cost breakdown provided by SJWC, DRA found the unit cost of a hardened laptop at $6,000 to be excessive. DRA conducted a check of laptop prices on the internet and found that a more reasonable price for a hardened laptop would be $4,000. With the lower unit price, DRA calculated that the total estimate for this project would be $175,000. Therefore DRA recommends that the estimate for this project be adjusted from $199,400 to $175,000.

43) Project 181 – Purchase of replacement vehicles

SJWC proposed $729,600 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace some of the vehicles but not the others. In its response to DRA's data request, SJWC provided the age and mileage of each existing vehicle. DRA compared the data to the policy of vehicle replacement at the Commission which states that a vehicle is eligible for replacement when either the vehicle is 8 years old or the mileage reaches 120,000 miles. DRA found that out of the twenty one proposed vehicles, only four vehicles are eligible for replacement. DRA believed that the remaining vehicles should be deferred to 2008 for replacement when they become 8 years old or reach 120,000 miles. Based on this finding, DRA calculated the total estimate for eligible vehicles to be $520,800 including those vehicles deferred from 2006. Therefore DRA recommends that the estimate for this project be adjusted from $729,600 to $520,800.

44) Project 2918 – Construct new record storage facility

SJWC proposed $897,700 in plant addition for this capital project in 2007. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace the existing storage building that has become too small to accommodate all the records of the company over its 140 years of history. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that there are no design plans for the new facility at this time. In a brief cost breakdown submitted to DRA, the company listed planning and permit fees at $150,000 and a new building cost at $540,000 plus other minor support costs for a total estimate of $865,000 without further elaboration. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $865,000 when the project is completed.

Table 8-C

Recommended Plant Addition Adjustments for 2008

Item No.	Project No.	Description	SJWC	DRA
45	1301	Install Nusonics flowmeters at SCVWD/SJWC turnouts. Phase 3 of 3 phases.	$144,000	$128,000
46	2917	Replace 2 wells which have deteriorated as identified in SJWCs 2005 Well and Groundwater Study.	$2,474,700	Advice Letter
47	3293	Furnish & install new hypochlorite system at Home Street Station	$618,700	$550,000
48	3087	Replace 1MG Steel Water Tank at Saratoga Hills Station, Tank #2.	$1,237,400	Advice Letter
49	2926	Motor Control Center (MCC) at Williams Station #1	$983,200	$874,000
50	3093	Replace MCC at 17th St.	$942,600	$868,000
51	3095	Replace MCC at Willow Glen Station.	$596,200	$530,000
52	1099	Replace 4" CI with 2,800' of 12" DICL Pipe on Loma Alta from Panighetti Pl. R/W to Cypress Way. (1896)	$1,022,700	Advice Letter
53	1200	Replace 22" WS with 3,025' of 30" Pipe for Hooker raw water transmission from Los Gatos Creek upstream. (1953)	$2,041,600	Advice Letter
54	2976	Replace 36" SI with 3,440' of 36" DICL Pipe on Southwest Exprwy from Stokes St. to La Barbera Dr. (1941)	$2,470,900	Defer to 2009
55	3005	Replace 16" CI with 400' of 30" DICL Pipe on W. Santa Clara St. between Almaden Blvd & Notre Dame. (1886)	$574,800	Advice Letter
56	3156	Replace 25 1/4" WSCL with 1,800' of 24" DICL Pipe on Saratoga Ave between Dagmar Dr. & Scotland Dr. (1950)	$1,176,600	Advice Letter
57	3191	Replace 4" CI with 720' of 6" DICL Pipe on San Fernando St. from S. 24th St. to 150' North of S. 30th St. (1926)	$373,500	Advice Letter
58	3221	Replace 12" SI with 300' of 20" DICL Pipe on Laurel Ave. from Wadsworth Ave. to Wissahickon Ave. (1925)	$341,100	Advice Letter
59	28	2" & under. To renew all services for main replacements, emergency service renewal where repair is difficult and service relocation in conjunction with City, County and State projects.	$3,149,600	$2,000,000
60	527	Replace Customer Information System (CIS). Product is obsolete.(Phase 1 of 2)	$1,771,400	Defer to 2009
61	1376	SCADA master control system replacement. Current Alpha-based SCADA system is at the end of its useful life. (Year 3 of a 3 Year program). (Operations)	$1,124,900	Advice Letter
62	3111	Purchase and install AMR drive-by system to read Cycle 42 (monthly) meters. (Phase 2 of 2)	$225,000	Advice Letter
63	3239	Purchase tablet computers to eliminate Field Service data entry and enable computer-based dispatch.	$126,400	$92,000
64	181	Purchase of Replacement Vehicles	$882,400	$726,000

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45) Project 1301 – Install flowmeters at SCVWD turnout

SJWC proposed $144,000 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need as a means to validate the accuracy of billing for purchased water. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $128,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $144,000 to $128,000.

46) Project 2917 - Replace two wells per study

SJWC proposed $2,474,700 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project based on a 2005 well and groundwater study and agrees with the company on its need in general. However, DRA did not see a firm contractor bid or quote to support the estimate in SJWC's response to DRA's data request. SJWC indicated that new information from an on-going consultant study may change the selection of locations and the estimate was based on a similar well project completed in 1996 and then inflated it to 2008 dollars at 4% per year. In a presentation to DRA during the field trip in March 2006, SJWC indicated that they would also explore the feasibility of well rehabilitation versus well replacement as a well rehabilitation cost would be substantially less than a well replacement cost. DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $2,474,700 when the project is completed.

47) Project 3293 – Install new hypochlorite system

SJWC proposed $618,700 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need since additional water has to be provided to the so-called Cambrian Zone. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $550,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $618,700 to $550,000.

48) Project 3087 – Replace tank at Saratoga Station

SJWC proposed $1,237,400 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the existing tank as it is deteriorated and beyond repair. In its response to DRA's data request, SJWC provided a detailed in-house cost breakdown dated July 14, 2005 showing a total estimate of $1,237,000. SJWC showed that the estimate for the tank construction with foundation was $520,000 based on R. S. Means Construction Cost Data . However, SJWC did not provide any support for other major cost components such as the estimate of re-piping at $138,000, slope repair at $200,000 and consultant/inspection at $115,000. In the absence of firm contractor bids or quotes for the entire project, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,237,000 when the project is completed.

49) Project 2926 – Replace Motor Control Center, Williams Station

SJWC proposed $983,200 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need since the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $874,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $983,200 to $874,000.

50) Project 3093 – Replace Motor Control Center, 17th Street Station

SJWC proposed $942,600 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need since the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $868,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $942,600 to $868,000.

51) Project 3095 – Replace Motor Control Center, Willow Station

SJWC proposed $596,200 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need since the existing motor control center is between 50 and 60 years of age and replacement parts are no longer available nor supported by the original manufacturer. However, DRA disagrees with SJWC on the estimate for this project. In a response to DRA's data request, SJWC attached a detailed cost breakdown which showed a total estimate of $530,000 including company labor, contingency and overhead. DRA considers this amount to be more reasonable than the proposed amount since it has all the details. Therefore DRA recommends that the cost for this project be adjusted from $596,200 to $530,000.

52) Project 1099 – Replace main on Loma Alta Road

SJWC proposed $1,022,700 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 12-inch main replacement is about $365 per linear foot. Other 12-inch main replacement projects in 2008 with similar lengths have a unit cost well under $300 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,022,700 when the project is completed.

53) Project 1200 – Replace main for Hooker raw water

SJWC proposed $2,041,600 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main as it has experienced numerous leaks. However, in the detailed narrative for this project, SJWC did not explain how the proposed estimate was derived even though this main replacement involves a substantial cost which is over two million dollars. SJWC just showed the estimate as a lump sum without any further breakdown. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $2,041,600 when the project is completed.

54) Project 2976 – Replace main on Southwest Expressway

SJWC proposed $2,470,900 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and disagrees with the company on its need in this general rate case for the following reasons. First, DRA noted that for 2006, SJWC has proposed a total of forty three main replacement projects with a total budget of about $18,000,000. For 2007, SJWC has proposed a total of fifty three main replacement projects with a total budget of about $21,000,000. For 2008, SJWC has proposed a total of sixty two main replacement projects with a total budget of about $25,000,000. The average annual main replacement budget in 2003, 2004 and 2005 has been about $14,000,000. Second, in a response to DRA's data request, SJWC submitted a list showing the relative priority of each main replacement in 2008 and DRA noted that this project

has a very low priority due to the fact that the existing main has not experienced any leaks so far in its history. DRA believes that there is no urgency to replace this main which involves a substantial cost in 2008. Therefore DRA recommends that this project be deferred to the next general rate case for replacement.

55) Project 3005 – Replace main on Santa Clara Street

SJWC proposed $574,800 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main since it has experienced numerous leaks. However, DRA noted that the unit cost for this 30-inch main replacement is about $1,400 per linear foot. Other 30-inch main replacement projects in 2008 have a unit cost about $675 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $574,800 when the project is completed.

56) Project 3156 – Replace main on Saratoga Avenue

SJWC proposed $1,176,600 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 24-inch main replacement is about $650 per linear foot. Other 24-inch main replacement projects in 2008 have a unit

cost about $500 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $1,176,600 when the project is completed.

57) Project 3191 – Replace main on San Fernando Street

SJWC proposed $373,500 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 6-inch main replacement is about $520 per linear foot. Other 6-inch main replacement projects in 2008 have a unit cost about $250 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same year. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $373,500 when the project is completed.

58) Project 3221 – Replace main on Laurel Avenue

SJWC proposed $341,100 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on its need to replace this main as it has experienced numerous leaks. However, DRA noted that the unit cost for this 20-inch main replacement is more

than $1,100 per linear foot. Other 20-inch main replacement projects in 2006 have a unit cost about $500 per linear foot. SJWC did not explain why this particular main would have to cost so much more than other similar sized mains in the same rate case. In the absence of firm contractor bids or quotes, DRA considers the final cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via an advice letter capped at the amount of $341,100 when the project is completed.

59) Project 28 – Renew all service lines, 2" and under

SJWC proposed $3,149,600 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace old, leaking service lines on existing mains as well as when new mains are installed. However, DRA disagrees with SJWC on the estimate for this project. In its response to DRA's data request, SJWC indicated that the estimate is based on a historic trend of actual costs since 2000. DRA found that the actual costs were less than the budgeted amounts in some years and more than the budgeted amounts in other years. DRA believed that taking an average of actual costs in past years (except 2005 where the actual cost was out of range) would be more reasonable to forecast future costs. DRA calculated the average of actual costs from 2000 to 2004 to be $2,000,000. Therefore DRA recommends that the estimate for this project be adjusted from $3,149,600 to $2,000,000.

60) Project 527 – Replace Customer Information System

SJWC proposed $1,771,400 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to replace the existing system as it will be fourteen years old by 2009 (at the end of its useful life) and the current vendor has a steady declining customer base. However, in the detailed narrative for this project, SJWC indicated that it has conducted discussions with four different prospective vendors but has not made a final decision on who to select. Also SJWC did not explain how the proposed estimate was derived even though this CIS system replacement involves a very substantial cost. The total estimate is approximately $3,600,000 with Phase 1 in 2008 at $1,771,400 and Phase 2 in 2009 at $1,828,600. SJWC just showed the two estimates as lump sums without any further cost breakdown. In the absence of firm contractor bids or quotes at this time and since the new system will not become used and useful until 2009, DRA believes that no credit should be given to plant addition in 2008. Therefore DRA recommends that this capital project be deferred to the next general rate case when the final phase of the project is completed.

61) Project 1376 – Replace SCADA control system

SJWC proposed $1,124,900 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace the SCADA system since the current system was originally installed in 1992 and would be at the end of its useful life by 2008. In the detailed narrative on this project, SJWC indicated that this project represents Phase III of a three phase program and involves the actual implementation of the new SCADA system. However, SJWC showed the anticipated cost for Phase III as $584,100 without any supporting documentation. In the absence of firm contractor bids or quotes, DRA considers the final total cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost

of this capital project via a combined advice letter capped at the amount of $1,124,900 ($540,800 for Phase II in 2007 and $584,100 for Phase III in 2008) when the project is completed.

62) Project 3111 – Install automatic meter reading system

SJWC proposed $225,000 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to perform the meter reading task more efficiently for its largest customers. DRA found this project to be cost effective since SJWC indicated that the project has a relatively short payback of less than six years and that one meter reading position would be eliminated in 2009. However, DRA did not see a firm contractor bid or quote to support the proposed estimate in SJWC's response to DRA's data request. SJWC indicated that this project represents Phase II of a two phase program and that prices will probably decrease some by 2007 to 2008. DRA considers the final total cost of this project to be uncertain at this time based on the above. Therefore DRA recommends that SJWC recover the cost of this capital project via a combined advice letter capped at the amount of $1,057,800 ($832,800 for Phase I in 2007 and $225,000 for Phase II in 2008) when the project is completed.

63) Project 3239 – Purchase ten tablet computers

SJWC proposed $126,400 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the company on the need to enable the crew to do field data entry more efficiently

without having to have a paper tracking system which is cumbersome. However, DRA disagrees with SJWC on the estimate for this project. In the review of a detailed cost breakdown provided by SJWC as a response to DRA's data request, DRA found that the total estimate for this project was $92,000 only. SJWC indicated that the estimate as proposed was overstated because a special GIS software, (worth about $34,000) which enables field personnel to identify SJWC facilities in the service area, would be included by the vendor without charge. Therefore DRA recommends that the estimate for this project be adjusted from $126,400 to $92,000.

64) Project 181 – Purchase of replacement vehicles

SJWC proposed $882,400 in plant addition for this capital project in 2008. DRA reviewed SJWC's detailed justification for this project and agrees with the need to replace some of the vehicles but not the others. In its response to DRA's data request, SJWC provided the age and mileage of each existing vehicle. DRA compared the data to the policy of vehicle replacement at the Commission which states that a vehicle is eligible for replacement when either the vehicle is 8 years old or the mileage reaches 120,000 miles. DRA found that out of the twenty two proposed vehicles, only five vehicles are eligible for replacement. DRA believed that the remaining vehicles should be deferred to 2009 for replacement when they become 8 years old or reach 120,000 miles. Based on this finding, DRA calculated the total estimate for eligible vehicles to be $726,000 including those vehicles deferred from 2007. Therefore DRA recommends that the estimate for this project be adjusted from $882,400 to $726,000.

D. CONCLUSION

DRA's recommendations have been incorporated in the calculations for DRA's recommended Plant-In-Service as shown in Table 8-1 and Table 8-2 with the following adjustments by DRA to SJWC's Utilitiy Plant:

1) SJWC has indicated the beginning of year balance for 2006 as $655,239,000 in Table WP 11-1 in the workpapers but DRA has noted that the end of year balance for 2005 as shown in SJWC's latest annual report is $650,893,300 instead. DRA considers the number in the company's annual report more reliable since it reflects the actual recorded plant in service as of 12/31/2005 which should be the same as the beginning of year balance for 2006.

2) In the same Table WP 11-1 for Other Transmission and Distribution Plant, SJWC has shown $37,607,000 for 2006, $38,865,000 for 2007 and $43,091,000 for 2008. DRA found these numbers to be excessive since they do not reflect the total of individual plant items under the category of Distribution System in the construction budget. DRA added up the individual plant items in this category and arrived at $27,748,000 for 2006, $30,619,000 for 2007 and $33,783,000 for 2008 which should be used to calculate the gross plant addition during each year in this general rate case.

TABLE 8-1

San Jose Water Company
PLANT
Test Year 2007

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Plant-in-Service 2006 (BOY)	650,893.3	656,118.8	5,225.5	0.8%
Additions in 2006	35,079.0	46,305.8	11,226.8	32.0%
Interest During Const.	344.0	458.4	114.4	0.0%
Retirements	4,922.0	4,922.0	0.0	0.0%
Beg-of-Year 2007 Balance	681,394.3	697,961.0	16,566.7	2.4%
Additions:				
New Projects	36,178.0	41,663.0	5,485.0	15.2%
Advances	7,479.1	7,479.1	0.0	0.0%
Estimated Next Yr. Budget	2,271.0	3,687.4	1,416.4	62.4%
Total Additions	43,657.1	49,142.1	5,485.0	12.6%
Interest During Const.	355.0	486.5	131.5	0.0%
Less:				
Retirements	4,922.0	4,922.0	0.0	0.0%
End-of-Year 2007 Balance	720,484.4	742,667.6	22,183.2	3.1%
Average Plant	701,854.1	723,895.3	22,041.2	3.1%

1

TABLE 8-2

San Jose Water Company
PLANT
Test Year 2008

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Plant-in-Service (BOY)	720,484.4	742,667.6	22,183.2	3.1%
Additions:				
Utility Funded	41,051.0	45,208.5	4,157.5	10.1%
Advances	7,479.1	7,479.1	0.0	0.0%
Contributions	2,271.0	2,271.0	0.0	0.0%
Total Additions	48,530.1	52,687.6	4,157.5	8.6%
Interest During Construction	398.0	521.6	123.6	31.1%
Less:				
Retirements	4,922.0	4,922.0	0.0	0.0%
End-of-Year Balance	764,092.5	790,954.8	26,862.3	3.5%
Average Plant	743,517.2	770,679.0	27,161.8	3.7%

1

CHAPTER 9: DEPRECIATION EXPENSE AND RESERVE

A. INTRODUCTION

This chapter presents DRA's analysis and recommendation on depreciation. Tables 9-1 and 9-2 show weighted average accumulated depreciation and amortization for test year 2007 and escalation year 2008.

B. SUMMARY OF RECOMMENDATIONS

Differences in DRA's and SJWC's estimates are the result of different plant additions for the test year and the escalation year. These differences are discussed in Chapter 8, Plant in Service.

C. DISCUSSION

SJWC derived the composite rates from a straight-line remaining life curve using balances for this case consistent with standard practice U-4. Differences are the result of different Plant estimates.

D. CONCLUSION

DRA reviewed and accepted SJWC's methodology.

TABLE 9-1

San Jose Water Company
ACCUMULATED DEPRECIATION AND EXPENSE
Test Year 2007

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
		(Dollars in Thousands)		
Accum. Depreciation (BOY)	219,217.0	223,107.3	3,890.3	1.8%
Accruals During Year:				
Clearing Account	798.3	798.3	0.0	0.0%
Contributed Plant	2,271.0	2,271.0	0.0	0.0%
GIS	265.0	265.0	0.0	0.0%
Deprec. Exp.	20,904.0	21,189.0	285.0	1.4%
Total Accruals	24,238.3	24,523.3	285.0	1.2%
Add: Salvage	0.0	0.0	0.0	0.0%
less: Retirements	6,308.0	6,308.0	0.0	0.0%
Adjustments	0.0	0.0	0.0	0.0%
End-of-Year Balance	237,147.3	241,322.6	4,175.3	1.8%
Aver. Accumulated Deprec.	229,381.7	233,433.6	4,051.9	1.8%

1

TABLE 9-2

San Jose Water Company
ACCUMULATED DEPRECIATION AND EXPENSE
Test Year 2008

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
		(Dollars in Thousands)		
Accum. Depreciation (BOY)	237,147.3	241,322.6	4,175.3	1.8%
Accruals During Year:				
Clearing Account	838.9	838.9	0.0	0.0%
Contributed Plant	2,271.0	2,271.0	0.0	0.0%
GIS	265.0	265.0	0.0	0.0%
Deprec. Exp.	22,012.0	22,492.0	480.0	2.2%
Total Accruals	25,386.9	25,866.9	480.0	1.9%
Add: Salvage				
less: Retirements	6,308.0	6,308.0	0.0	0.0%
Adjustments	0.0	0.0	0.0	0.0%
End-of-Year Balance	256,226.2	260,881.5	4,655.3	1.8%
Aver. Accumulated Deprec.	247,963.1	252,410.5	4,447.4	1.8%

2

CHAPTER 10: RATEBASE

A. INTRODUCTION

DRA and SJWC estimates for rate base for Test Year 2007 and Escalation Year 2008 are discussed in this Chapter.

B. SUMMARY OF RECOMMENDATIONS

DRA recommends adaptation of its estimates for: Depreciation Reserve, Plant in Service, Working Cash Allowance, Advances and Contributions, and Deferred Taxes attributable to ACRS & MACRS Tax Depreciation.

C. DISCUSSION

Tables 10-1 & 10-2 show DRA's and SJWC's estimates of rate base for Test Year 2007 and Escalation Year 2008. The differences between the rate base developed by DRA and SJWC are due to the differences in the estimates for Plant in Service, Depreciation Reserve, Advances and Contributions, Working Cash and Deferred Taxes estimates.

Plant in Service

The differences in plant in service are explained in Chapter 8 of this report, and are carried forward to Tables 10-I and 10-2 of chapter 10.

Depreciation Reserve

The differences in depreciation reserve are explained in Chapter 9 of this report, and are listed in Tables 10-1 and 10-2 of that chapter.

Working Cash Allowance

SJWC proposed negative 200 days in its net lag calculation of federal and state income taxes based on 2004 tax year. DRA considered this as unreasonable because other similar water companies have shown positive net lag days instead. In response to DRA's data request, SJWC admitted that the proposed number is not representative of typical tax payments. A more recent lead lag analysis by SJWC in 2005 indicated that the net lag day for federal income tax payment is 87 and that for state income tax payment is 66. DRA reviewed the revised numbers and agreed with SJWC. Subsequently, DRA calculated working cash requirements for 2007 and 2008 which are different from what SJWC has proposed.

Deferred Taxes

The differences between tax calculation for depreciation between DRA's and SJWC's are attributed to the differences in plant estimates.

D. CONCLUSION

The differences between the rate base developed by DRA and SJWC are due to the differences in the estimates for plant in service, depreciation reserve, contributions, working cash and General Office allocation estimates.

TABLE 10-1

San Jose Water Company
RATEBASE
Test Year 2007

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Plant-in-Service	704,649.7	723,895.3	19,245.6	2.7%
CWIP	0.0	0.0	0.0	0.0%
Aver. Plant	704,649.7	723,895.3	19,245.6	2.7%
Adjustment to plant	-161,468.0	-156,691.9	4,776.1	0.0%
Working capital	8,175.0	21,440.9	13,265.9	0.0%
Tax Deferrals	-37,314.5	-42,535.1	-5,220.6	0.0%
On Taxing CIAC & Advances	7,651.2	7,589.9	-61.3	0.0%
Deferred Tax on Sale of property	-412.9	-412.9	0.0	0.0%
Undepreciated rate base	521,280.5	553,286.2	32,005.7	6.1%
Depreciation Reserve	229,381.7	233,433.6	4,051.9	1.8%
Weighted Avg Rate Base	291,898.8	319,852.6	27,953.8	9.6%

TABLE 10-2

San Jose Water Company
RATEBASE
Test Year 2008

Item	DRA Analysis	SJWC Proposed	SJWC Exceeds DRA Amount	SJWC Exceeds DRA Percent
	(A)	(B)	(C)	(D)
	(Dollars in Thousands)			
Plant-in-Service	738,963.1	770,679.0	31,715.9	4.3%
CWIP	0.0	0.0	0.0	0.0%
Aver. Plant	738,963.1	770,679.0	31,715.9	4.3%
Adjustment to plant	-168,266.0	-159,694.5	8,571.5	0.0%
Working capital	9,219.6	19,100.0	9,880.4	0.0%
Tax Deferrals	-37,715.0	-44,105.9	-6,390.9	16.9%
On Taxing CIAC & Advances	7,582.7	7,502.5	-80.2	-1.1%
Deferred Tax on Sale of property	-412.9	-412.9	0.0	0.0%
Undepreciated rate base	549,371.5	593,068.2	43,696.7	8.0%
Depreciation Reserve	247,963.1	252,410.5	4,447.4	0.0%
Weighted Avg Rate Base	301,408.4	340,657.7	39,249.3	13.0%

CHAPTER 11: CUSTOMER SERVICE & CONSERVATION

A. INTRODUCTION

This report sets forth DRA's analysis and recommendations for SJWC's SJWC district Customer Service and Conservation programs.

DRA has reviewed SJWC's filing and updates, and data request response regarding customer complaints for the years 2003, 2004 and 2005. There have been twenty nine complaints filed by customers with the Commission in that time; seventeen concerning water pressure, eight concerning policy issues, three concerning restrictions, and one concerning rates.

B. SUMMARY OF RECOMMENDATIONS

DRA finds SJWC's customer record satisfactory and finds SJWC's customer service process reasonable. DRA recommends that the Commission finds SJWC's customer service response to water service complaints to be satisfactory.

C. CUSTOMER SERVICE AND SERVICE QUALITY

SJWC's records indicate that the number of inquiries have been modest relative to the number of customers in the SJWC's service territory. SJWC has provided the number and types of CPUC informal complaints received as shown in the table below.

Year	Billing Dispute	Policy Issues	Rates	Restrictions
2003	2	1	0	3
2004	11	5	1	0
2005	4	2	0	0

San Jose has also provided, in response to a DRA data request, the number of and type of complaints received by the company from 2000 through 2005. The monthly summaries provided show a noticeable decline in customer complaints during the period. Data from 2005 show a range of 10 to 20 complaints per month.

D. CONSERVATION PROGRAMS

SJWC's conservation programs and expenses are described in its Urban Water Management Plan prepared in October 2005 filed with its application. The conservation programs consist of numerous programs that implement the various identified "Best Management Practices." Conservation is an integral part of SJWC's long term planning for meeting projected customer demand.

1) CONSERVATION DISCUSSION

San Jose Water Company's conservation programs are overseen by a full-time Conservation Coordinator. The Conservation Coordinator is responsible for developing, maintaining, and reporting on conservation activities.

One of San Jose Water Company's conservation programs is its residential water audit program. This program has grown from just over 600 audits in 2001 to just over 2,500 forecasted for 2007. Program expenditures were $140,000 in

2001 and are forecasted to be $176,000 in 2007. Water savings were 94 Acre-Feet (AF/YR) in 2001 and are forecasted to increase to 382 AF in 2009 as a result of the residential water audits. The forecasted cost to save 1 AF/YR through the residential water audit program is about $460. This compares to a cost of $510/AF for water from the Santa Clara Valley Water District.

Other ongoing conservation programs include school education programs, large landscape conservation programs, and the high efficiency washing machine rebate program among others. San Jose Water Company also coordinates its efforts with and participates in programs with the Santa Clara Valley Water District.

2) CONSERVATION RECOMMENDATIONS

DRA finds SJWC's conservation program satisfactory and finds SJWC's conservation expenses reasonable. DRA recommends that the Commission finds SJWC's conservation programs and expenses to be satisfactory.

CHAPTER 12: RATE DESIGN

A. INTRODUCTION

This chapter contains DRA's discussions of rate design for SJWC.

B. SUMMARY OF RECOMMENDATIONS

As proposed by SJWC, DRA recommends that the standard rate design adopted in D.86-05-064 in the Commission's Order Instituting Investigation into Water Rate Design Policy (I.84-11-041) issued on May 28, 1986 be used for the proposed rates.

C. DISCUSSIONS

In I.84-11-041 the Commission adopted a policy that would require 50% of the fixed cost be recovered through service charges and the remaining 50% of the fixed cost and the variable cost be recovered through quantity rates. SJWC's proposed rate design is in compliance with the decision. DRA recommends that SJWC's proposed rate design be adopted.

CHAPTER 13: SPECIAL REQUESTS INCLUDING TOTAL PRODUCTION COST BALANCING ACCOUNT

A. INTRODUCTION

This chapter presents DRA's analysis and recommendations on SJWC's Special Requests, including their request for what they refer to as a "total water production cost balancing account" (full cost balancing account [FCBA]). This chapter also presents DRA's analyses and recommendations about the water quality, catastrophic event and water contamination litigation memorandum accounts, as well as the incremental cost balancing account.

B. SUMMARY OF RECOMMENDATIONS

The Commission currently grants incremental cost balancing accounts to make shareholders whole when the rates change for purchased water, electricity or pump taxes. The Commission has allowed a full cost balancing account for only one district of one water utility, in a case where supplies of surface and purchased water supply were highly volatile. The utility in question was San Gabriel Water Company. SJWC's supplies of surface and purchased water, on the other hand, are relatively stable. Since SJWC does not need the FCBA, the request for FCBA should be denied. Further, SJWC's claim that approval of that FCBA sets a precedent is incorrect, not only because of SJWC's more favorable water supply situation, but because the Commission more recently rejected FCBA for San Gabriel. Finally, FCBA would harm ratepayers and serve as a disincentive to conservation and efficient operation of the utility system. Therefore, SJWC's proposed "Total Water Production Cost Balancing Account" should be denied. SJWC's current incremental cost balancing accounts are adequate to make shareholders whole for any change in the cost of purchased water, purchased power or pump taxes.

Regarding the proposed Water Quality Memorandum Account, DRA is concerned that SJWC state that tens of millions of dollars may be booked into that account in the coming rate case cycle. Ratepayers would not be able to sustain such rate increases. DRA recommends that SJWC file an advice letter for a memo account for expenses with a total not to exceed $500,000, and an application for expenses in excess of that total. The reason for requiring an application for larger expenses is to enable DRA to assure that expenses which would have a significant impact on rates are necessitated by law and are the most cost-effective way to comply.

Regarding SJWC's proposed recovery of the Incremental Cost Balancing Account, Catastrophic Events Memorandum Account and Water Contamination Litigation Memorandum Account, DRA concurs.

C. DISCUSSION – FULL COST BALANCING ACCOUNT

SJWC requests that its incremental cost balancing accounts for purchased water, purchased power and pump taxes be replaced by a single full cost balancing account. Currently, SJWC's incremental cost balancing accounts make shareholders whole when the rates change for purchased water, electricity or pump taxes.[18] SJWC seeks a "total cost balancing account," which would also make shareholders whole if the *quantities* of purchased water or pumped well water change. As such, a full cost balancing account would reduce risk to shareholders.

Variations in the availability of purchased water affect the amount of well water that must be produced, and changes in well water production drive changes in purchased power and pump taxes. A total balancing account is unnecessary, given that changes in the amount of purchased water available are likely to be

[18] And shareholders are more than made whole when the utility is earning above its adopted rate of return because recovery of undercollections in balancing accounts is no longer subject to the earnings test.

minimal, and any changes in the cost of purchased water, electricity or pump taxes are already fully recovered through existing incremental cost balancing accounts.

1) The FCBA of San Gabriel Water Company's Fontana District Did Not Set a Precedent Because SJWC Have no Need of a FCBA.

SJWC asserts that the granting of a full cost balancing account to San Gabriel Water Company's Fontana District in 2004 sets a precedent for SJWC.[19] However, in 2005, the Commission denied San Gabriel's Los Angeles District a FCBA.[20]

SJWC, in its testimony, selectively quoted two passages from D.04-07-034. SJWC used ellipses in lieu of the following key language:

> San Gabriel states that the extreme volatility of Fontana Division's supply mix and the large difference in cost among the different sources of supply require retaining the full cost balancing accounts the Commission has approved in previous Fontana Division rate cases. Further, San Gabriel states that a full cost balancing account protects both customers and San Gabriel from significant deviations from GRC forecasts of these expenses and from any supply cost or mix changes that cannot be forecasted before the rates have been determined.[21]

In granting San Gabriel's request, the Commission stated:

> We note that for Fontana Division, both water production and power supply costs are subject to wide variations, and the supply mix is determined by hydrological conditions that are beyond San Gabriel's ability to predict or control.[22]

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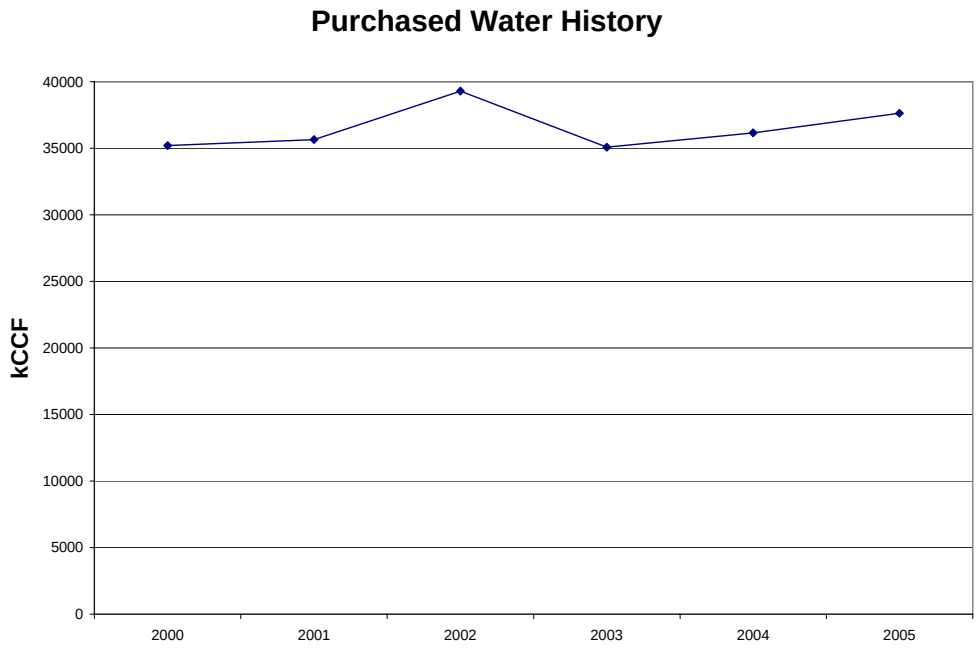
[19] Exh. E, p. 17-2, testimony of Palle Jensen.
[20] D.05-07-044.
[21] D.04-07-034, p. 63.
[22] Ibid.

Table 13-A shows that SJWC's purchased water supply is not subject to wide variation. The five year average for 2001-2005 is 36,765 kCCF and the standard deviation is only 1,699 kCCF, or 4.6% of that. With rainfall plentiful of late, there is no reason to believe that the utility's water supply will be subject to volatility during this rate case cycle.

Table 13-A

Purchase Water History[23]
(kCCF)

2000	35,198
2001	35,658
2002	39,289
2003	35,082
2004	36,161
2005	37,636



[23] WP 8-4

Table 13-B shows that SJWC's surface water supply is more volatile. The ten year average is 6,127 and the standard deviation is 1,611, or 26% of that. The two standard deviations are comparable in absolute magnitude, however, and are complementary.

Table 13-B

Surface Water History[24]
(kCCF)

1996	7,052
1997	6,525
1998	8,350
1999	6,994
2000	5,857
2001	3,362
2002	3,557
2003	7,580
2004	5,692
2005	6,304

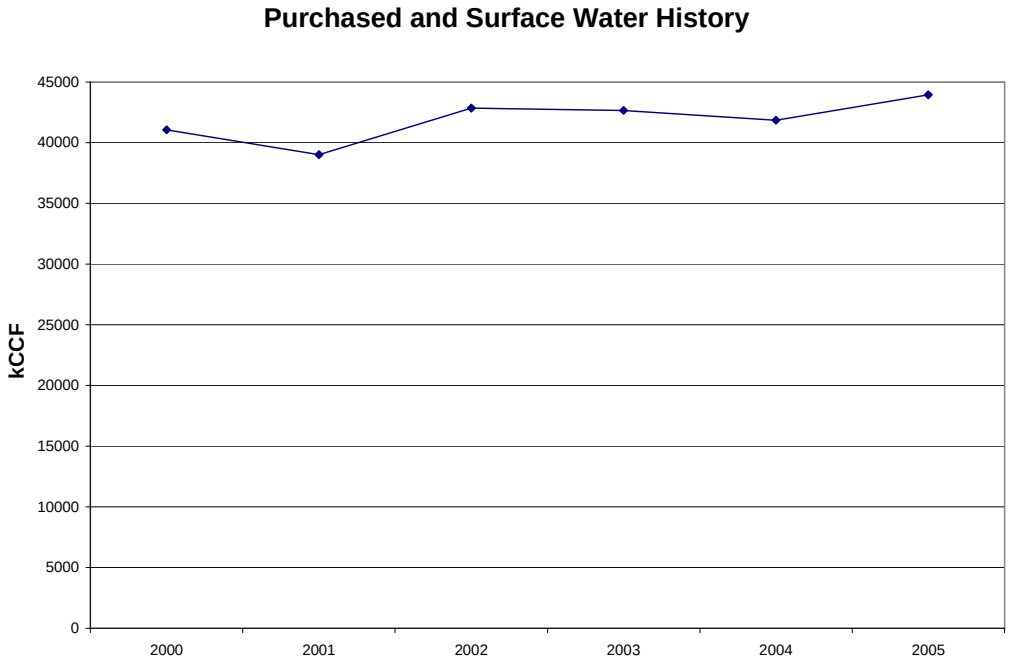
Combining the two water supplies yields:

Table 13-C

Purchase and Surface Water History
(kCCF)

2000	41,055
2001	39,020
2002	42,846
2003	42,662
2004	41,853
2005	43,940

[24] WP 7-4C



The average for 2001-2005 is 42,064 kCCF and the standard deviation is 1,857 kCCF, or 4.4%.[25] *This is slightly less than the volatility for purchases water alone*, and underscores that SJWC does not face nearly the sort of volatility of water supply that could merit consideration by the Commission of an FCBA.

SJWC assert that the Santa Clara Valley Water District plans to raise rates for purchased water, and that pump taxes will also rise. These increases will be fully recovered by the present incremental cost balancing account. Therefore, FCBA is not needed.

2) The FCBA of San Gabriel Water Company's Fontana District Did Not Set a Precedent Because the Commission has Since Rejected FCBA for San

[25] As calculated by STDEV function of Excel spreadsheet. STDEV uses the following formula:

$$\sqrt{\frac{\sum (x-\bar{x})^2}{(n-1)}}$$

where x is the sample mean AVERAGE(number1,number2,…) and n is the sample size.

Gabriel's Los Angeles District. FCBA Would Harm Ratepayers and Disincent Conservation

Given that there is no objective need for SJWC to have a FCBA, SJWC's proposal would be an unprecedented use of a balancing account that is afforded no other Commission-regulated water utility in the same supply situation. It would also harm ratepayers as follows: When water sales increase, SJWC would calculate a balance due from ratepayers due to increased water supply expenses while simultaneously collecting and retaining the revenues from those increased sales. There would thus be an overcollection which transfers income from ratepayers to shareholders. SJWC may argue that its revenues after amortization of a full cost balancing account would exactly offset its expenses at any level of sales, but this is not correct. In its denial of an FCBA to San Gabriel's Los Angeles district, the Commission agreed with DRA's identical concern in that case:

> Since the quantity rates are set to recover all of the utility's variable costs and part (approximately one-half) of its fixed costs, when sales are more than estimated, San Gabriel would collect more than its increased variable costs in rates, yet would still calculate an additional balance due from ratepayers through a full cost balancing account. The offsetting revenues entered into the full cost balancing account to which San Gabriel refers are only a fraction of its higher revenues due to increased sales; the remainder would not enter the balancing account but would instead benefit San Gabriel's bottom line. The reverse would be true when sales are less than forecast, but we describe next other factors that could come into play to upset the symmetry.[26]

[26] D.05-07-044, p. 47.

The asymmetry that the Commission speaks of is exacerbated by the net transfer of income from ratepayers to shareholders that will occur unless the ROE is reduced commensurate with the reduction in risk which FCBA brings.

The Commission went on to note the harmful effect of FCBA on conservation and on efficient operation of the utility system:

> San Gabriel's proposal would further increase its profits when sales increase to above the rate case forecast, and further depress profits when sales decrease. This would create a disincentive for San Gabriel to promote water conservation among its customers. Full-cost coverage for pumping power and water supplies greatly reduces the incentive to react quickly to main breaks and customer-reported leaks, and to invest in projects to reduce system water losses. Full-cost coverage for pumping power creates a disincentive to monitoring and investing in maintenance, repairs and replacements as pump efficiency degrades over time. In summary, the potential benefits to ratepayers of full cost supply balancing accounts are greatly outweighed by the perverse incentives that such balancing accounts would create.[27]

The harmful effects of FCBA on conservation and on efficient operation apply to SJWC as much as to San Gabriel. The Commission rejected FCBA for San Gabriel, and should do so for SJWC.

[27] Ibid.

3) Adoption of an FCBA Changes SJWC's Risk and Therefore Necessitates a Reduction in its ROE. With No Body of Record on the Correct Reduction in ROE, FCBA Should be Denied.

Not only have SJWC not demonstrated that the present incremental cost balancing account is inadequate, SJWC has not met the Commission's burden of evidence regarding the impact FCBA would have on risk and ROE. The Commission has acknowledged that the rate of return should be adjusted when risk is reduced due to adoption of reserve accounts. The Commission in D.05-07-044 denied San Gabriel Water Company's request for a "full cost balancing account" in part because no body of record had been developed on how much to reduce the utility's commensurate rate of return:

> The parties give no indication how their agreed rate of return should be adjusted should the Commission change San Gabriel's risk profile and increase its potential for profit by granting it full cost balancing accounts that others do not enjoy.[28]

SJWC has made no quantitative showing regarding how its risk would be affected. Therefore, its request should be denied.

D. DISCUSSION – OTHER SPECIAL REQUESTS

1) Water Quality Memorandum Account

SJWC request that the Commission permit expenses to be booked in the Water Quality Memorandum Account which are incurred in order to comply with new state and federal water quality standards. Among the contaminants which may be affected by state or federal rule changes include cryptosporidium, perchlorate, disinfection byproducts, synthetic organic chemicals and microbes that may be related to fecal contamination. While the precise nature of the state

[28] D.05-07-044, p. 48.

or federal rule changes that may be expected is unknown, costs may be incurred in the millions of dollars. Of specific concern is the possibility that standards may be adopted for radon gas. The utility states that,

> US EPA is expected to recommend air-stripping is the best available technology for removing radon from drinking water... the capital cost to install air-stripping treatment plants that these 38 [distribution] stations is estimated to be $37.2 million, with operation and maintenance costs estimated to be $932,000 per year.[29]

Such costs would entail astronomical increases in rates which ratepayers could not sustain. Rather than approve a memorandum account in advance for expenses which could not be reviewed until after the fact, and which ratepayers might not be able to sustain, DRA recommends that SJWC file an advice letter for a memo account for expenses with a total not to exceed $500,000, and an application for expenses in excess of that total. The reason for requiring an application for larger expenses is to enable DRA to assure that expenses which would have a significant impact on rates are necessitated by law and are the most cost-effective way to comply.

2) Water Quality Compliance

Regarding SJWC's request that the Commission find that "the company is in compliance with all current water quality standards," DRA notes that the utility is not in known violation of any water quality standards. Water quality compliance therefore appears to be satisfactory.

3) Incremental Cost Balancing Account

[29] SJWC Exh. E, Ch. 16, p. 7.

SJWC's incremental cost balancing accounts make shareholders whole for changes in purchase water prices, electric power rates, pump taxes, chemicals and other ingredients whose cost may rise during a rate case cycle above the adopted amount. SJWC requests recovery of a net under-collection of $384,819, which includes the overcollections in 2002 and 2003, an undercollection in 2004, and the carrying charges thereof through December 31, 2005. It does not include any undercollection from 2005.[30]

In D.06-04-037, the Commission stated that any undercollection incurred in 2005 must be recovered in the next rate case cycle. Therefore, only the under or overcollections as of December 31, 2004, and the carrying charges from that balance during 2005 may be recovered in this application. The amounts in question include[31]

- An overcollection previously adopted by the Commission for 2002 in response to AL345, and the carrying charges thereof through December 31, 2005, totaling $118,033
- An overcollection previously adopted by the Commission for 2003 in response to AL 346 and the carrying charges thereof through December 31, 2005, totaling $285,069
- An undercollection previously adopted by the Commission for 2004 in response to and AL 353, and the carrying charges thereof through December 31, 2005 of $786,057.

The total of these amounts is a net undercollection of $382,819. Adding small effects of increased franchise taxes and uncollectibles yields a total of $384,819.[32] SJWC proposes to recover this amount with a twelve month surcharge of 6.4 mills

[30] WP 17-3 through 17-3c as explained by Ann Lindahl.
[31] Ibid.
[32] Ibid.

based on estimated consumption which DRA agrees with. DRA agrees with SJWC recovery of the company's net undercollection of $382,819.

4) Current Catastrophic Events Memorandum Account

SJWC seeks to recover $57,860 in costs incurred to repair damage from storms that struck Santa Clara County in December, 2002 and January, 2003. The storms caused the Governor to declare Santa Clara County a state disaster area. SCWC would recover the costs through a one-time per customer surcharge of $0.27.

SCWC notified the CPUC of the incursion of these costs in a timely matter pursuant to Resolution No. E-3232. DRA does not object to the proposed recovery of the costs in the Catastrophic Events Memorandum Account.

5) Water Contamination Litigation Memorandum Account

SCWC seeks to recover $8,330 through a one-time surcharge per customer of four cents. DRA does not object to the proposed recovery.

E. CONCLUSION

For the reasons given above, the Commission should deny San Jose Water Company's request for a "total water production cost balancing account." Regarding a Water Quality Memo Account, SJWC should file an advice letter for a memo account for expenses with a total not to exceed $500,000, and an application for expenses in excess of that total. SJWC's other Special Requests should be granted.

CHAPTER 14: STEP RATE INCREASES

A. FIRST ESCALATION YEAR RATE INCREASE 2008

On or after November 5, 2007, SJWC should be authorized to file an advice letter, with appropriate supporting workpapers, requesting the escalation year rate increase for 2008 authorized by the Commission, or to file a lesser increase in the event that the rate of return on rate base, adjusted to reflect the rates then in effect and normal ratemaking adjustments for the 12 months ending September 30, 2007, exceeds the lesser of (a) the rate of return found reasonable by the Commission for SJWC for the corresponding period in the most recent rate decision, or (b) the rate of return found reasonable in this case. This filing should comply with General Order 96-A. The requested step rates should be reviewed by the Commission's Water Division (Division) to determine their conformity with this order, and should go into effect upon the Division's determination of compliance. The Division should inform the Commission if it finds that the proposed rates are not in accord with this decision, and the Commission may then modify the increase. The effective date of the revised tariff schedule should be no earlier than 30 days after filing. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective on the filing date.

B. SECOND ESCALATION YEAR

For the second escalation year, an inflation rate adjustment should be granted for the revenue requirement increases attributable for the expense increases due to inflation and rate base increases that are not offset by the increases in revenues with the revenue change to be calculated by multiplying forecasted inflation rate calculated by DRA and operational attrition attributable to rate base increase less expected increases in revenues plus financial attrition adopted in this proceeding.

Operational attrition is the change in rate of return from 2007 to 2008 and is calculated by using the Commission-adopted 2007 rates for both years. Financial attrition is calculated by subtracting the attrition year's total weighted cost of debt and equity from the second test year's total weighted cost of debt and equity.

On or after November 5, 2008, SJWC should be authorized to file an advice letter, with the same requirements listed above for the second escalation year rate increase. The effective date of the revised tariff schedule should be no earlier than January 1, 2009 or 30 days after filing, whichever is later. The revised schedules should apply to service rendered on and after their effective date. Should a rate decrease be in order, the rates should become effective January 1, 2009.

APPENDIX A

QUALIFICATIONS AND PREPARED TESTIMONY

QUALIFICATIONS AND PREPARED TESTIMONY
OF
SUNG B. HAN

Q. 1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A. 1 My name is Sung B. Han and my business address is *505* Van Ness Avenue, San Francisco, CA. I am Senior Utilities Engineer in the Water and Legislation Branch of the Division of Ratepayer Advocates (DRA).

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from San Francisco State University in 1970 and a Masters of Science degree from University of California, Berkeley in 1972. I have taken various courses in financial accounting, regulatory economics, and depreciation from various institutions. I am also a licensed Professional Mechanical Engineer in the State of California.

Q.3 Please summarize your business experience.

A.3 After graduation from Berkeley, I joined the Commission. I worked on various formal proceedings before this Commission, including various types of rate proceedings, valuation studies and other investigations initiated by the Commission. I have analyzed and testified on various aspects of utility operations including plant, depreciation, operations and maintenance expenses, administrative and general expenses, revenues, rate design, and conservation. I have also worked as Project Manager for various energy and water rate proceedings.

Q.4 What is your responsibility in this proceeding?

A.4 I am the Project Manager for this proceeding and responsible for Executive Summary, Chapter 1 Introduction, Chapter 12 Rate Design Chapter 14 Step Increases of DRA's Results of Operations Report for SJWC.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
CLEMENT T. LAN

Q.1 Please state your name, business address, and position with the California Public Utilities Commission (Commission).

A.1 My name is Clement T. Lan and my business address is 505 Van Ness Avenue, San Francisco, CA. I am a licensed Utilities Engineer in the Water Branch of the Division of Ratepayer Advocates.

Q.2 Please summarize your educational background.

A.2 I received a Bachelor of Science degree in Mechanical Engineering from the California Polytechnic State University at San Luis Obispo in June 1972 and a Masters of Science degree in Mechanical Engineering from the University of California at Berkeley in December 1973. I have taken various courses on ratemaking topics within the last seven and half years at the commission.

Q.3 Please summarize your business experience.

A.3 After graduation from the University of California at Berkeley, I first worked in the private industry as a design engineer on industrial facilities for about four years and then worked in the federal government as a project engineer on general facilities including utility systems for about twenty years. I joined the Commission in January of 1999 and have worked on various Class A rate cases involving administrative & general expenses, operation & maintenance expenses, utility plant-in-service, depreciation, and ratebase issues.

Q.4 What is your responsibility in this proceeding?

A.4 I am responsible for Chapter 8 (Plant In Service), Chapter 9 (Depreciation) and Chapter 10 (Ratebase) for the single district of SJWC in this proceeding.

Q.5 Does this conclude your prepared direct testimony?

A.5 Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
Patrick E. Hoglund

Q.1. Please state your name and business address.

A.1. My name is Patrick E. Hoglund. My business address is 505 Van Ness Avenue, San Francisco, California.

Q.2. By whom are you employed and in what capacity?

A.2. I am employed by the California Public Utilities Commission - DRA Water Branch - as a Utilities Engineer.

Q.3. Please briefly describe your educational background and work experience.

A.3. I am a graduate of the University of California, Berkeley, with a Bachelor of Science Degree in Industrial Engineering and Operations Research. I am also a graduate of the University of Rochester, William E. Simon School of Business with a Master of Business Administration Degree with concentrations in Finance and Corporate Accounting. I am a licensed professional Industrial Engineer.

I have been employed by the California Public Utilities Commission since 2005. My current assignment is within DRA – Water where I work on Class A General Rate Cases. From 1999 through August 2004, I was a Senior Rates Analyst at Pacific Gas and Electric Company, where I worked on a variety of revenue requirements issues related to natural gas. From 1990 through 1997, I was employed by the California Public Utilities Commission. During this time I worked on small water utility rate cases, large water utility rates cases, and also worked in the Telecommunications and Energy Branches of the former Commission Advisory and Compliance Division, as well as in the Division of Ratepayer Advocates.

Q.4. What are your responsibilities in this proceeding?

A.4. I am responsible for Chapter 2 - Customers, Water Consumption and Revenues, Chapter 5 – Taxes Other Than Income, Chapter 6 – Income Taxes, Chapter 7 – Net to Gross Multiplier, and Chapter 11 – Customer Service of DRA's Results of Operations report.

Q.5. Does this conclude your prepared testimony?

A.5. Yes, it does.

QUALIFICATIONS AND PREPARED TESTIMONY
OF
Jay Morse

Q.1Please state your name and business address.

A.1 My name is Jay Morse. My business address is 505 Van Ness Avenue, San Francisco, California, 94102.

Q.2 By whom are you employed and in what capacity?

A.2 I am employed by the California Public Utilities Commission (CPUC) in its Office of Ratepayer Advocates (ORA) as a Public Utilities Regulatory Analyst IV.

Q.3 Briefly describe your pertinent educational background.

A.3 I graduated from the University of California at Berkeley with a dual major Bachelor of Science degree in Operations Research and Nuclear Engineering. I graduated a member of Alpha Pi Mu, the National Industrial Engineering Honor Society.

Q.4 Briefly describe your professional experience.

A.4 I have testified in numerous electricity general rate cases and rulemaking proceedings. From 1989 to 1991 I was assistant project manager for the Edison/SDG&E Merger Case. From 1990 to 1994, I performed electricity resource planning duties and served as assistant project manager in the Biennial Resource Plan Update. From 1992 to 2001 I was project coordinator for distributed generation. Since 2003 I have testified on water matters.

A.4 I am responsible for Chapters 3 and 4 of the Results of Operations Report on O&M and A&G expenses, respectively. I am also responsible for the testimony in Chapter 13 on Special Requests, including the proposed Total Water Cost Balancing Account.

Q.5 Does that conclude your testimony?

A.5 Yes, at this time.